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Kitchen

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SPECIAL
REPORT
HOTTEST
YOUNG
EXECUTIVES

INTERVIEW | VENKAIAH NAIDU

"People should be central to
the smart city concept"



business today

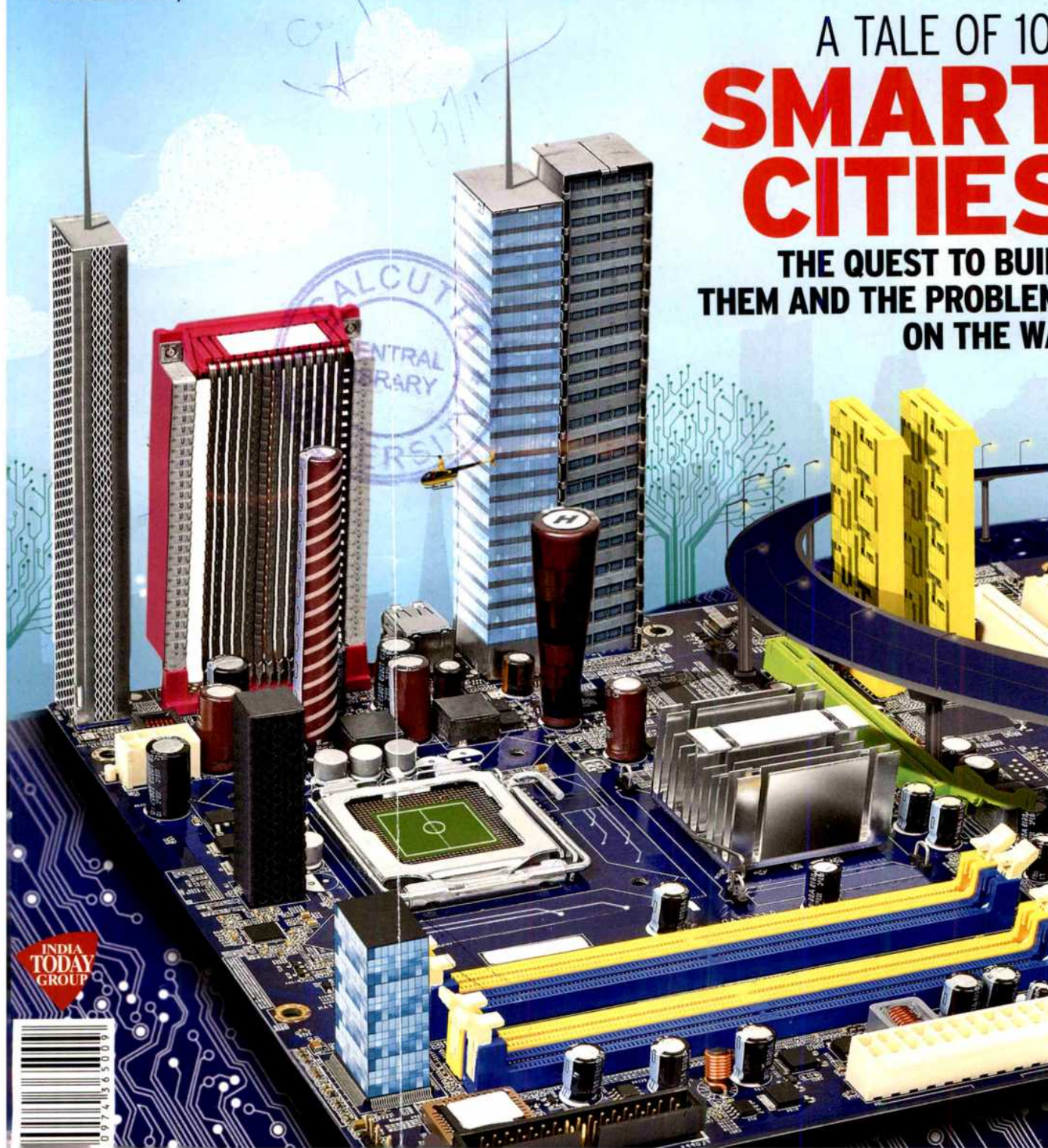
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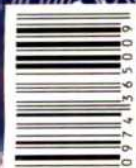
March 15, 2015

A TALE OF 10 SMART CITIES

THE QUEST TO BUILD
THEM AND THE PROBLEMS
ON THE WAY



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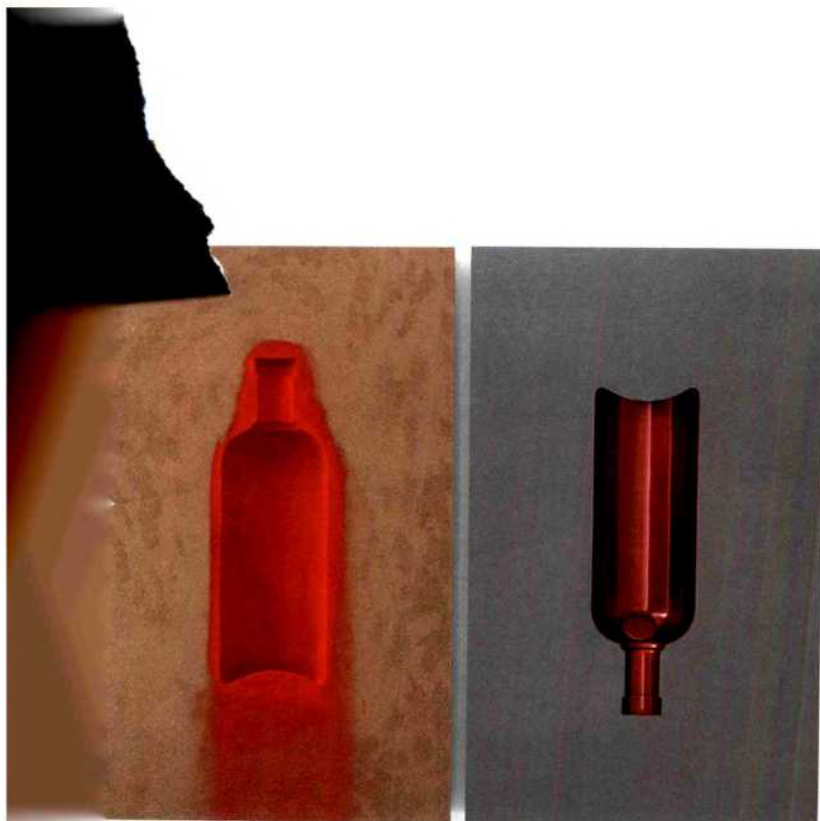
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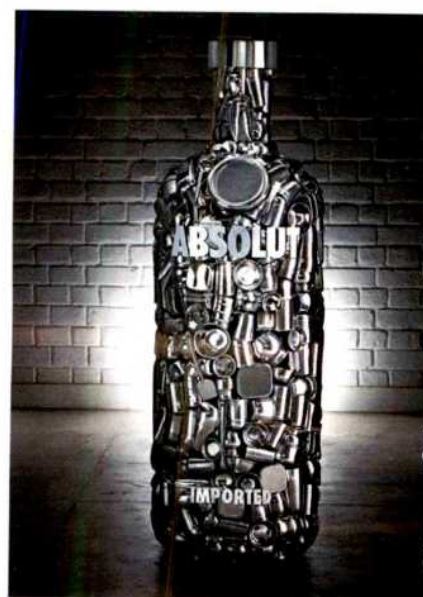
ANISH KAPOOR

Anish Kapoor captures the essence of the Absolut bottle through a bold statement of minimalism that redefines the possibilities of the banal.



02 VIKRAM SETH

Vikram Seth's homage to the many forms of the iconic Absolut shape shows itself in three distinct artistic expressions.



03 SUBODH GUPTA

Subodh Gupta's Absolut masterpiece depicts the transformation of everyday objects into something truly extraordinary.

From Andy Warhol to Anish Kapoor, Absolut is a shape that has always inspired the world's artists. This is a tribute to collaborations that became legends, a toast to visionaries who have shaped the world.

O&M 5346

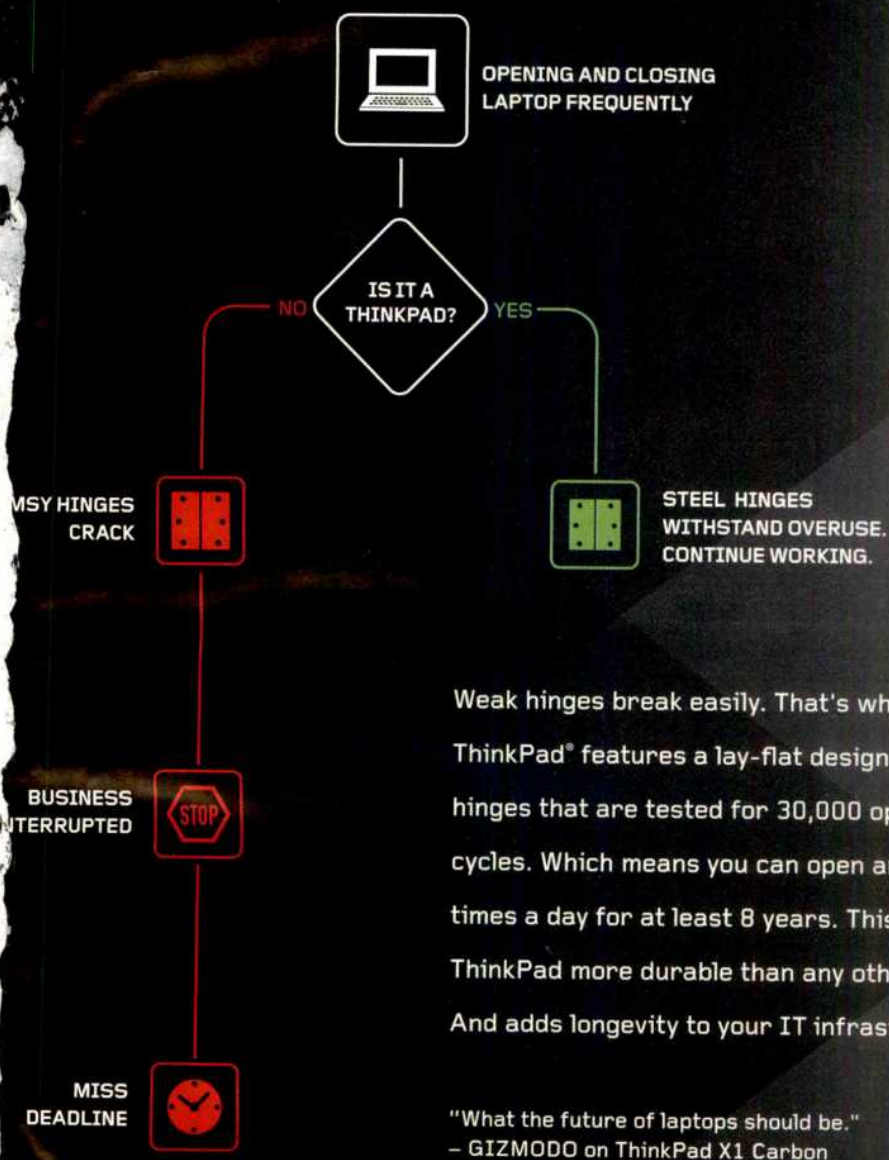
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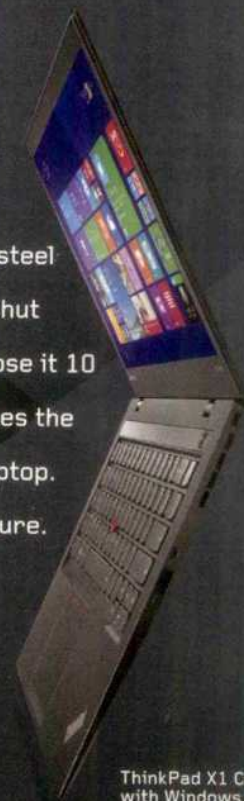
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From the Editor

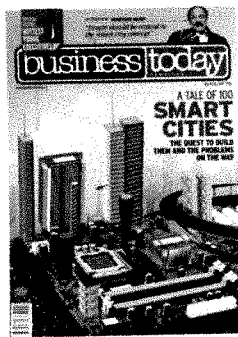
Cities with Brains

P 34,851

Prime Minister Narendra Modi would like India to have at least 100 smart cities in 20 years time. Some of these will be spanking new cities, built from the ground up. In other cases, old towns and cities will be upgraded into smart or, at least, smarter cities. One of the earliest smart cities – which is being built in Gujarat, and work on which started when Modi was chief minister of the state – will be ready within a few years. It is a Greenfield city, coming up just outside Ahmedabad and has been dubbed as the Gujarat International Financial Tec-City (GIFT).

The smart city dream is a humungous one because of the scope and scale of its ambition. It will cost over ₹40 lakh crore of investment – at the very minimum – over the 20-year period. Earlier prime ministers and urban development ministers in India have only talked of planned cities and better urban development and facilities. No one had articulated a vision of creating smart cities that could match up to the best of global cities.

Even globally, smart cities are of a fairly recent vintage. They are also relatively rare. There would only be about 26 cities around the world that have earned the title of smart cities. Barcelona is one. Amsterdam is another. Most of the well-known smart cities are in Europe, North America or Australia.



In fact, there is also considerable debate about what constitutes a smart city. The IT firms think that technology defines a smart city. Green advocates define it in terms of being sustainable in its architecture and running. Others put infrastructure first. And that is why the concept is still nebulous even in the minds of many urban planners. Even in India, several cities in the making are trying to earn the tag of smart cities. The Ajit Gulabchand-promoted

Lavasa is trying to position itself as one, while a lot of town planners, consultants and urban development experts feel that Vizag will be one of the first cities in India to earn that title.

What businessmen agree on is that the scope of the opportunity in building new smart cities and retrofitting old ones is huge. There are opportunities for IT consultants and services, for infrastructure companies, for sensor makers and for dozens of others. Very different companies land up before the urban development ministry every day to make presentations on smart cities.

So far, nine months after Modi took charge, the government is still struggling to put a framework over the smart cities dream, and to clear any concrete proposals. Senior Associate Editor Goutam Das and Assistant Editor Manu Kaushik travelled across the country to put together our cover story on what constitutes a smart city and the hurdles the government needs to cross to make the dream come true.

This issue also contains our special report on India's Hottest Young Executives, an annual survey we had started in 2002. It has been anchored by Senior Editor Shamni Pande and Deputy Editor Alokesh Bhattacharyya. Turn to page 68 to read about the executives who are creating a lot of buzz in some of India's best-known companies.

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Vol. 24, No. 5, for the fortnight March 2-15, 2015.

Released on March 2, 2015.

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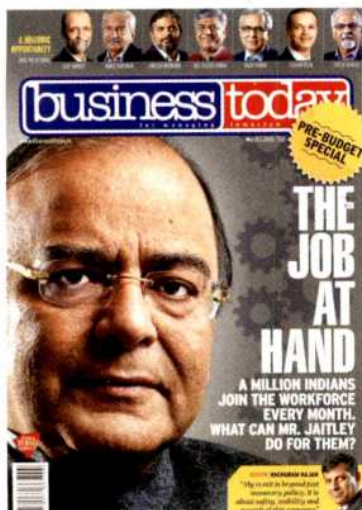
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Indian Economy Gaining Momentum

This refers to your cover-package article on pre-Budget, *The Job at Hand* (March 1). It has been well analysed. This is really a goldilocks moment for India, as its economy is neither too hot nor too cold. The "Make in India" programme is gradually gaining momentum. However, as RBI Governor Raghuram Rajan says, instead of Make in India, we must look into our regional and domestic demand for our growth. Also, Prime Minister Narendra Modi's view on subsidies is quite appreciable. In the recent past, the government has eased the FDI regime. This will give a

leg-up to the economy and create more jobs. Still, the economy faces a number of challenges such as rising bad loans of banks and tepid industrial growth. Hope the BJP's first full-year Budget will try to solve these and many other problems the country is facing.

Abhinav P., New Delhi

Taxpayers' Dream

This refers to your cover-package article on panel discussion, *What Mr. Jaitley Should Do* (March 1). Regarding the income-tax Act, there should be statutorily a fixed time limit for the assessment orders and refunds must be issued within three months of date from filing of the I-T returns. All educational institutions must be totally exempted from the income-tax bracket. The limit under section 80 L for savings bank interest must be raised from ₹10,000 to ₹50,000.

Mahesh Kapasi, New Delhi

Nice Write-up

This refers to your story on economy, *Cut to the Chase* (February 15). The write-up is very nice. I agree that while we can take pride in the fact that the economy is growing at a faster clip, we have to acknowledge the reality that it is on a much

smaller base and we have a long way to catch up in absolute terms. But multiple actions on the policy front may spur us to leverage the demographic dividend and the opportunities that present themselves. We have to do that to provide the window to the millions of youth who would be joining the workforce as we go forward.

Ashok Reddy, On e-mail

Customer Experience

This refers to your story on Kalyan Jewellers (*A Glittering Success*, February 1). It is a great story. True, the company has grown exponentially in the recent past. But I would like to share about my recent customer experience. The old ornaments to new ornaments service charges (melting loss, buying rate of old gold, and making charges for new ornament) of Kalyan Jewellers run above 25 per cent of the overall cost of new ornament, which is probably most expensive. In a very short time, Kalyan Jewellers has been valued high in the market. But as valued customers, we also have the final choice to choose and buy the brand product.

G. Udayabhaskar, Mumbai

Send all your comments to: editor.bt@intoday.com

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Mercedes Benz launches C-Class diesel priced up to ₹42.9 lakh.

With the new C-Class, they have just killed one of their best-selling products in India. This new Benz costs almost ₹50 lakh on road. I wonder with that narrow gap between C and E models, who is going to buy it?

- Ayush Agrawal

Flipkart aims to double its sales to the US by \$8 billion in three years.

With a wide network and abundant resources, Flipkart will surely reach the milestone.

- Ashutosh Gupta

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HOTTEST YOUNG EXECUTIVES

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CHIKI SARKAR

GAURAV BANERJEE

GUNJAN SHAH

KARAN BHAGAT

MANU KUMAR JAIN

MEENAKSHI PRIYAM

NIKHIL SHAH

PULKIT TRIVEDI

ROHIT KUMAR

SATHEESH
KRISHNAMURTHY

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businessstoday.in/hye2015

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Wish list for Budget 2015

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NEWS

Encouraging Signs

Greater role for private sector in defence, promises Prime Minister Modi.
businessstoday.in/pvtsector-defence

New Game Plan

Novelis ramps up auto and specialty business, exits foil business.
businessstoday.in/novelis-business

PERSPECTIVES

Shamni Pande says the race for digital news content is intensifying as Mashable launches in India.
businessstoday.in/mashable-india

Venkatesha Babu lists five reasons why Infosys bought US-based Panaya.
businessstoday.in/infosys-panaya

BT COLUMN

On Succession and Its Planning

More and more family-run businesses are taking interest in succession planning, says **E. Kumar Sharma**.
businessstoday.in/alchemy



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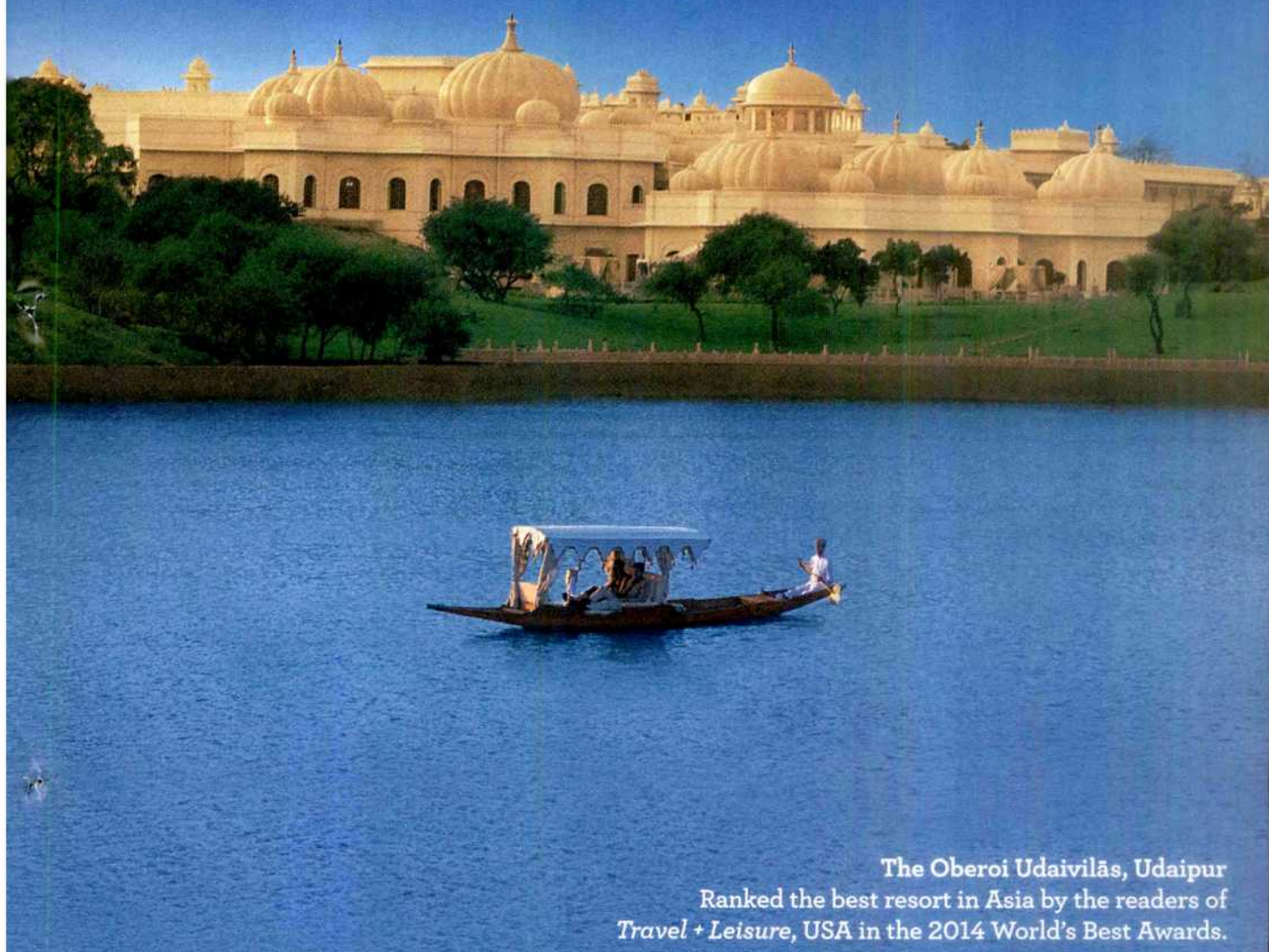
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LUCKY MODI?



"The thing is that our Prime Minister had a lucky period in these nine months... after nine months, there is a little bit of impatience creeping in..."

HDFC Chairman **Deepak Parekh**, in an interview to PTL, reported by several newspapers, added his voice to the rising chorus that Narendra Modi has so far been a lucky PM. He added that little had been done in the new government's first nine months to make it easier to do business in India – the cornerstone of the Make in India campaign.



266.272 kg

The amount of Sree Padmanabhaswamy temple gold lost when it was out for melting and purification, according to an audit by former CAG Vinod Rai, who is known for his much-debated loss to the government in the so-called 2G scam. The gold lost is nearly 30 per cent of what went out, as reported by *The Hindu*. The newspaper adds that the last Murajapom, a festival conducted every six years, concluded on January 14, 2014, but the calf elephant to be offered to the deity reached two weeks later. Rai puts the loss due to this delay at ₹35 lakh.

PRE-NUP BREAKUP

There is one couple that is warring before even marrying, reports Reuters. Readers of this page, admittedly a population that may not be very large, would be familiar with the Mirach Capital Group, which planned to bail out the Sahara Group with a big loan – estimates range between \$1 billion and \$2 billion. Mirach gave a letter to Sahara that purported to prove the US group had the funds in an account at Bank of America, but after a Reuters report earlier this month raised questions about the authenticity of the document, Sahara said it was a forgery.



RAJ VERMA

"...it's an irony that after having seen lethargic governments, you today have a government which is criticised for being too fast"

Finance Minister **Arun Jaitley**, while launching the government's e-biz portal, refused to respond directly to Parekh. But maybe he did respond.



₹4,31,31,000

The winning bid for Prime Minister **Narendra Modi's** pinstriped monogrammed suit. It went to Lalji Patel and his son Hitesh, of Surat's Dharmanandan Diamonds. Hitesh, the company's MD, said their mission was to get the suit at any cost. A ₹5 crore bid was rejected because it came after the auction had closed. The proceeds from the auction, which had 455 other gift items received by Modi, and 361 received by Gujarat CM Anandiben Patel, will be spent on cleaning the Ganga.

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SPECTRUM SAGA

WHAT: *Telecom spectrum auction*
WHEN: From March 4

WHAT TO LOOK FOR: The government is targeting to raise ₹100,000 crore from the auction of 2G and 3G spectrum. State-run firms BSNL and MTNL will not participate in the auction as they do not need additional spectrum. The auction is crucial for private-sector firms such as Bharti Airtel, Vodafone, Idea Cellular and Reliance Communications whose licences in many circles are coming up for renewal by the end of this year. Mukesh Ambani's Reliance Jio will be an aggressive bidder. The government had garnered about ₹62,162 crore from the last auction in February 2014. Proceeds from this year's auction are expected to help the government meet the fiscal deficit target of 4.1 per cent of GDP.



RAJ VERMA

BANKING ON BRICS

WHAT: *Russia's ratification of agreement on the creation of a bank for BRICS*
WHEN: By March



BRICS

WHAT TO LOOK FOR: Russia is expected to commit \$2 billion to the fund. The BRICS bloc of large emerging economies — Brazil, Russia, India, China and South Africa — has struggled to take coordinated action after an exodus of capital, prompted by the scaling back of US monetary stimulus.

2 - 5

THE DIGITAL CONNECT

WHAT: *Mobile World Congress*
WHEN: March 2-5

WHAT TO LOOK FOR: The mobile revolution is already here, so what's next is the question that pops up in the minds of digital enthusiasts. You will find out the latest on wearable devices, connected cars and homes in this Barcelona event. Take a seat for the edge of innovation.



5

CHINA MARCH

WHAT: *China's military budget*
WHEN: At the start of the annual meeting of China's parliament on March 5

WHAT TO LOOK FOR: President Xi Jinping is likely to hike defence spending in the backdrop of America's renewed focus on Asia. Last year, China's defence spending rose 12.2 per cent to \$130 billion, second only to the US.



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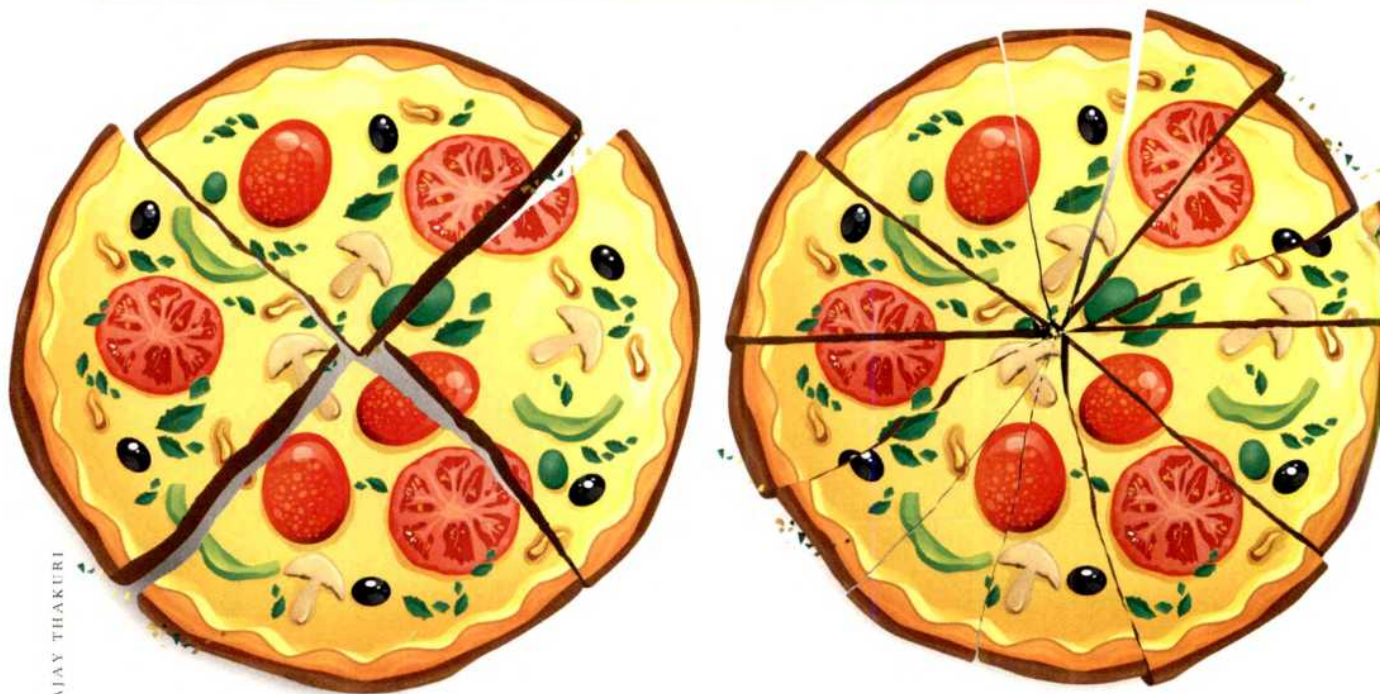
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FOCUS

20 Rush for Renewable Energy
22 Column: Adding Man to Manufacturing
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High GDP Doesn't Equal Prosperity

It is the GDP per capita rather than GDP that captures the well-being of citizens. By PROSENJIT DATTA

\$1,499
India's GDP per capita compared to \$53,042 for the US

According to the new data presented by the chief statistician T.C.A. Anant earlier this month, India grew much faster in the past year and a half than estimated earlier. So, the "policy-paralysed" last year of the UPA may not have been that bad after all.

In 2013/14, estimates Anant, India actually grew at 6.9 per cent, and not 4.7 per

cent. In the last quarter of that year, India probably grew at 7.5 per cent -- faster than China's 7.3 per cent growth. The revision happened because of a change in the methodology and because the base year was moved from 2004/05 to 2011/12.

Anant pointed out that the measurement of many sectors of the economy had become far more accurate in the new methodology, which led to changes in the growth

rate – though it also lowered the size of the economy a few years ago. But, he clarified, the change in growth rates did not lead to a material difference in the total size of the GDP in 2013/14. It remained around \$1.8 trillion or so.

The Reserve Bank of India, the World Bank, the IMF and data crunchers from other organisations generally differ on their growth estimates for India's economy. What most of them agree on is its rough size. Almost all of them concur that India's GDP in nominal terms was between \$1.8 trillion and \$1.9 trillion in 2013. They also agree that India is the 10th biggest economy in the world, probably just a bit bigger than Canada and certainly much bigger than Australia, Spain, South Korea, Mexico and Indonesia.

And nobody denies that India is one of the world's fastest-growing major economies – whichever way you measure it. Whether it is growing faster than China might be open to debate, but the fact that it is growing very fast for an economy this size is not in doubt.

Those are achievements to be proud of. But when reams are written on the size of the Indian economy and the speed at which it is growing, what is often glossed over is one other piece of data – that in terms of GDP per capita or income per capita, India is not in the Top 10. It is not even in the Top 20. And if GDP per capita is to be used to measure achievement, India still has a very long way to go.

Why is GDP per capita as important, if not more, than absolute GDP? The reason is that it helps in measuring two things – the economic output per person in the country and the level of income enjoyed by the country's population at an average. In fact, GDP per capita is a far better measure of the living standards of the average person in a country than GDP numbers. The World Bank puts India's GDP per capita at \$1,499 in 2013 – or, roughly ₹89,940 at the exchange rate of ₹60 to a dollar. The Indian government estimates it at a slightly smaller ₹74,380. The US enjoyed a per capita GDP of \$53,042, Canada \$51,958, Australia \$67,458, and the UK \$48,787. China, in comparison, did not look very good with \$6,807. Still, despite having a population larger than ours, China has a per capita GDP which is over four times as big. Singapore has a GDP which is barely \$291

billion, but, at \$55,182, its per capita GDP is higher than even that of the US, whose GDP is 57 times bigger than Singapore's.

Unlike most developed countries, India's population is still growing extremely fast at 1.2 per cent, compared to 0.5 per cent for China, 0.7 per cent for the US, 0.6 per cent for the UK and 0.5 per cent for France. The population growth has been one of the reasons for the spurt in India's GDP, the other being more sensible economic policies adopted since 1990. The young workforce has propelled India's growth since the early

BOTTOM OF THE CLASS

India's GDP is high but its GDP per capita is way behind that of all developed countries

COUNTRY		GDP (\$ Trillion)	GDP Per Capita(\$)
US		16.8	53,042
China		9.2	6,807
UK		2.7	41,788
India		1.8	1,499
Canada		1.8	51,958
Australia		1.6	67,458

Source: World Bank estimates for 2013

2000s. The flip side is that the population growth is also the reason why India's GDP per capita has not kept pace with those of developed countries, even though its GDP has outstripped many of them.

In the article *Cut to the Chase*, in the February 15 issue of this magazine, it had been pointed out that even if India grew at 10 per cent year on year, while China slowed to 5 per cent, India will continue to lag its north-eastern neighbour even 20 years hence. But if one were to change the focus from absolute GDP to GDP per capita to measure when Indians can live the kind of lifestyle that citizens in developed nations do, it needs to do two things simultaneously. One, the growth rate needs to accelerate even faster than the government currently envisages. Equally, the population growth needs to slow down so that the equation is not forever skewed. ♦

@prosenjitdatta

It Doesn't Add Up

Why all the proposed renewable energy projects may not see the light of day. By RAJEEV DUBEY



Time to deliver:
Power Minister Piyush Goyal

It was heartening – and worrying – to see the heap of letters of commitment to the prime minister from 200-odd Indian and foreign companies to set up 266 GW of wind, solar and other renewable energy projects in India.

Heartening, because if we do indeed set up all these projects, India will definitely have surplus power. A lot of it. To put it in perspective, India's entire power-generating capacity currently stands at just 230 GW. The nation, then, will be in a position to engage in soft diplomacy with some of our neighbours by selling surplus power to them. Perhaps, even attempt to improve relations with Pakistan, which is seeing up to 16-20 hours of power cuts in some cities and towns. Worrying, because, for one, there is no deadline, and, two, a majority of the announcements appears to have been made to humour the prime minister and the government and may never see the light of day – literally. Sun Edison, which operates solar plants totalling 100 MW, has committed 10,000 MW of solar and 5,200 MW of wind power plants. Axis Wind Energy, whose website is under construction, has committed the second-highest, 12,500 MW of renewable energy. And the list goes on...

Heartening, because the energetic Power

and Renewable Energy Minister Piyush Goyal appears to be a hands-on minister, determined to make a mark in this government. Worrying, because he is acting like a schoolteacher. "The commitment of 266,000 MW is far in excess of our plans," he said, adding, "I am going to hold each company responsible for meeting these commitments. In fact, I've given them a one-week window, because I don't want them going back on their commitments later." The question is: How will he force them to set up projects they have committed? Importantly, will they be penalised for not setting up projects if they don't find them viable, and how?

It's heartening to see the enormous interest in India's brand new renewable energy push. It gives India leverage in climate negotiations with the West that wants us to reduce our carbon footprint. It's worrying because, clearly, several PSUs have either been coaxed or cajoled into making announcements. Or their CMDs are out to appease the powers-that-be while looking for their next lucrative assignment rather than focusing on the financial health and well being of the PSUs they manage. Together, the PSUs have committed 8,570 MW of projects. At an average of ₹7 crore per MW, that's ₹59,990 crore. That's a lot of money. It should rather go into the businesses they are mandated to carry out. Why, for instance, is the state-run NHPC, whose statutory mandate is to set up hydro-electric plants, going to set up 350 MW of solar and 80 MW of wind projects? Some others have been more realistic. Union Bank of India will set up a 9 MW solar project. Rashtriya Chemical and Cochin Shipyard propose 2 MW and 1 MW solar projects, respectively.

And we haven't even begun to discuss the numerous other challenges before these projects such as land acquisition, grid connectivity, financing. Most importantly, their viability and payback period.

Hopefully, India will take more heart than worry from the goings on. But a reality check is in order, for sure. ♦

CLEARLY, SEVERAL PSUs HAVE EITHER BEEN COAXED AND CAJOLED INTO MAKING ANNOUNCEMENTS. OR THEIR CMDs ARE OUT TO HUMOUR THE POWERS-THAT-BE

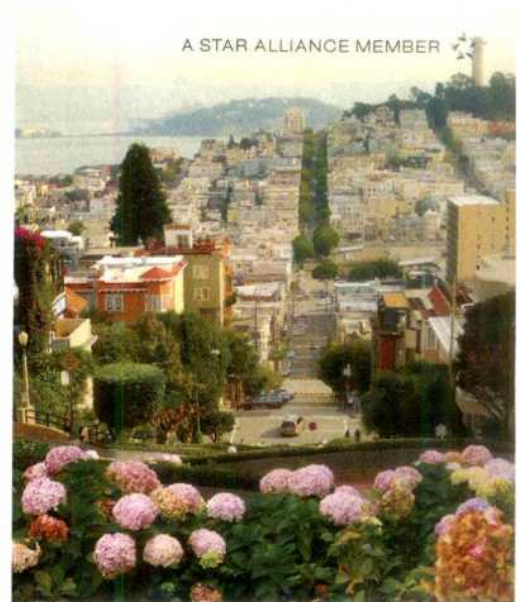
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By DILIP PIRAMAL

Make in India: Adding Man to Manufacturing

The Modi government's "Make in India" initiative is certainly overdue. Today, a large number of mass produced consumer goods, be it textiles, readymade garments, toys, handbags, luggage items, mobile phones, television sets, air conditioners or shoes, are mainly imported. They are made abroad, usually in China.

In the last 15 years we have forgotten that everything sold in India in the second part of the last century had to be made in India, and manufacturing was taken for granted. How is it that the tables have turned 180 degrees?

A few years after independence we had a foreign exchange crisis and strict import controls were levied. The import of consumer goods was totally banned. In fact, in the 1960s and 1970s, even raw material was not allowed to be imported freely. Import licences had to be obtained and products like plastic raw material had an import duty of over 200 per cent.

With the economic reforms in the early 1990s, imports became quite lib-

eral, but only as recently as 2001, when under the rules of the WTO agreement consumer goods were allowed to be imported. At the beginning of the century, we could import completely finished consumer goods for the first time after nearly 50 years. At first, the import duty on such goods was 80 per cent but since about 2007, the peak rate of import duty is only 10 per cent with a few exceptions, notably automobiles, where imports have been made quite prohibitive.

Earlier, we also had a regime where a lot of consumer products were allowed to be made only by the small scale sector. This resulted in inefficient manufacturing, and thrived to some extent on tax evasion. There was a disincentive to grow and achieve economies of scale.

Meanwhile, countries like China had developed an extremely efficient, and low-cost manufacturing environment. China has become virtually the factory for the world for not only low-wage, labour-intensive products, but also gradually the entire gamut

of consumer products like televisions, mobiles, other electronic products and industrial machinery, moulds and dyes, etc.

In India we have everything that China has: a huge young population which is largely uneducated, unskilled and unemployed. We also have a large manufacturing base and an entrepreneurial business culture. However, our labour policies offer such iron clad job security to the workers that it is virtually impossible to close down a factory employing more than 100 workmen under any circumstances. The only way such a factory closes down is if the company goes bankrupt. The consequence of such a labour policy is that the workers have no vested interest in the long-term success of the company, and there is a constant demand for increased wages.

There are frequent disputes and disruptions and there is no emphasis on productivity. Highly productive and efficient units have become more the exception than the norm and in a free trade world re-

gime, Indian factories cannot compete against other countries particularly China. As a result, with imports becoming so easy and so well-priced, manufacturing of such goods in India has become fairly unviable. The irony is that large-scale employment will come only from low-cost consumer goods.

China has created a large manufacturing base by providing an entire ecosystem conducive to low-cost and high quality products. This results in a virtuous cycle, leading to further economies of scale. Countries like India find it difficult to compete with them.

A lot of economists and political leaders make a defensive argument that India has become a service sector-intensive country, and we can also have knowledge-intensive industries like the IT sector. However, as long as we have large-scale unemployment, we have to explore all avenues of the economy, and it is imperative that we promote that sector of industry which has the maximum potential for employment, namely manufacturing. ♦

Dilip Piramal is Chairman, VIP Industries



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HAVE MORE TAX SLABS MADE YOU RICHER?



With the budget around the corner, the biggest demand is for the rise in the number of income tax slabs. But do they really reduce your tax outgo?

Research by **Priya Kapoor**
Graphic by **Sunil**

1) IN FLASHBACK...

1970-74             **11**
income tax
slabs

1974-85           **8**
slabs

Starting 1985        **4**
slabs

Starting 1995    **3**
slabs

4) But are incomes constant?

Here's what happens when we factor in an annual income rise of

10%

TAX AS % OF INCOME

YEAR	INCOME (₹)	MALE	FEMALE
2005/06	5,00,000	14	13.3
2006/07	5,50,000	16	14.8
2007/08	6,05,000	17	0.2
2008/09	6,65,500	11	10.8
2009/10	7,32,050	13	12.4
2010/11	8,05,255	9	8.9
2011/12	8,85,781	10	10.0
2012/13	9,74,359	11	10.8
2013/14	10,71,794	12	11.6
2014/15	11,78,974	11	11.3

2) Income tax slab changes in the last decade



7 times
for men

* In 2007/08 2008/09, 2009/10, 2010/11 2011/12, 2012/13, 2014/15



6 times
for women

* In 2007/08 2008/09, 2009/10, 2010/11, 2012/13, 2014/15

In 2013/14, for the first time, the government gave a tax credit of ₹2,000 to people with income of less than ₹5 lakh

* Slabs considered for people aged < 60

3) Yes, the widening of slabs have reduced tax outgo since 2005/06. That's assuming a constant income of

₹ 5 lakh
every year



MALE

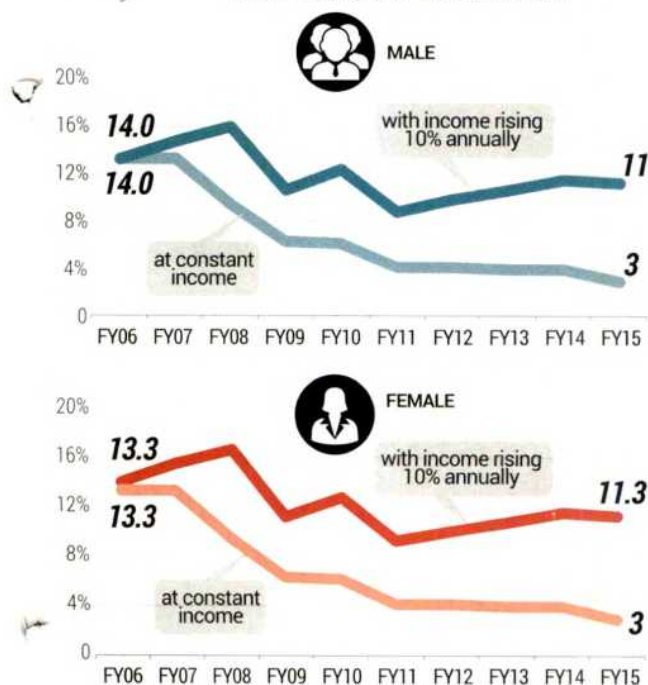


FEMALE

TAX AS % OF INCOME

2005/06	14	13.3
2006/07	14	13.3
2007/08	10.8	9.5
2008/09	7	6.4
2009/10	6.8	6.2
2010/11	4.8	4.2
2011/12	4.4	4.2
2012/13	4	4
2013/14	4	4
2014/15	3	3

5) So, as your incomes more than doubled, your outgo rose more than 3X



Tax has been calculated after factoring in a deduction under Section 80C, and without considering education cess

6) With the myth surrounding the widening of income tax slabs busted...



... a more simplified tax regime to benefit all, perhaps, Mr Jaitley?

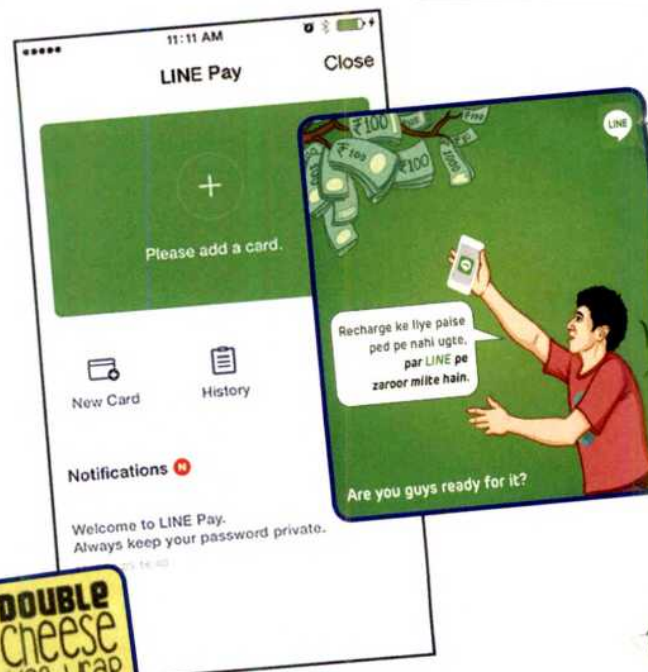
WHAT'S TRENDING

The Age of Social Commerce

In 2015, people are expected to move beyond networking to actually transacting through social media. The networks are gearing up with innovative gateways. By **Chitra Narayanan**

A third of humanity worldwide – that is two billion people – is on social networks, says Shubhadeep Guha, Vice President and Global Lead for Digital Marketing & Content, at SapientNitro, an independent advertising agency. In 2014, global digital commerce sales touched nearly \$1.5 trillion, according to digital market research company eMarketer.

Now join these two dots and guess where people will be transacting the most in future? The big bet is on social channels, of course. That is why brands need to get a move on. "Most brands currently use social as just another channel of engagement with their consumers," says Guha.



However, already 18 per cent of the global e-commerce revenues are reported to be through social networks. Projections are that it will touch 50 per cent in next to no time.

"Social commerce is going to be an important piece in the tech ecosystem," says Nilay Arora, VP-Marketing and Business Development, WeChat India, a social messenger app. In China, the Tencent-owned WeChat – it's known there as Weixin – even enables sales through a payment gateway and acts like an online storefront for brands that have public accounts on the chat app.

WeChat is now trying to enable

DIGITAL DASHBOARD GOING SOCIAL VIA MOBILE

Accessing e-mail



74%

Accessing social media websites



61%

Online chat & video call



54%

Navigation/maps



40%

Music/video photos



30%

Download apps from app stores



29%

*Travel or entertainment

Source: Mobile Internet India 2014, IMAI-IMRB



Interview with Nilay Arora of WeChat India
at businesstoday.in/wechat-arora

online-to-offline payments by connecting the chat app with vending machines. In an initial trial, 300 vending machines were connected to the app. Users could pay for the product on the chat app earning some discounts and pick up the product from the vending machines.

Others are getting into the act, too. Early this year, rival messenger app Line launched Line Pay, a mobile money transfer and purchasing service. Facebook and Twitter are both trialling buy buttons. Indications are that Twitter may roll it out to the public this year, disrupting the social commerce landscape.

Even if the direct tools are not yet available in India, in an indirect way, social commerce has already taken off here. "Social commerce has various connotations," says Damandeep Soni, Business Head, Line India, explaining how in a milieu where direct sales are not yet possible through social channels due to regulatory constraints, assisted sales can still happen. An example, he says, is the way Amazon partnered with Line app to drive transactions. Or the campaign with FreeCharge whereby Line users could earn up to 200 per cent extra talk time by exchanging stickers and earning cashback.

Nilay Arora of WeChat agrees. "Flipkart, Amazon, Jabong, you name them. They all have official accounts on WeChat, encouraging

social sharing and even creating a mechanism where you can go through to their store directly from the channel," he says.

Similarly, word of mouth recommendations on social platforms have a big impact on buy decisions. Already, consumers are making the leap from chatting to buying on these channels. Arjun Ravi Kolady, Facebook's head of e-commerce in India, describes how sales are happening through posts on the network and an inmail follow-up. According to Kolady, the status on the buy button of the social networking site is currently limited to tests in the US.

Social commerce through Facebook has mostly been leveraged by small and medium entrepreneurs. But increasingly, e-commerce websites in India, too, are tapping social networks.

Smart brands can also use social media as a tool to influence other people after a transaction is completed, says Arora. According to him, social behaviour of consumers is intense and can give a big filip to e-commerce. For instance, fashion discussions on a social platform can trigger shopping impulses. However, says Arora, the social behaviour in different countries may not be exactly similar, so we need to come up with our own innovations to fuel transactions. ♦

@ndcnn

LISTENING

Social Security

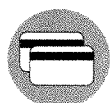
Are you paranoid about the security settings in Facebook? The social network has taken note of its users' anxiety and just launched a new site called ThreatExchange. This is a platform for cybersecurity professionals to share information about any potential attacks from malicious software and exchange notes on how to safeguard. It's a by invitation-only site during the test period, but Twitter, Dropbox, Bitly, Pinterest and Tumblr have signed on as partners. With professionals on the job, social security gets a new meaning now!

Kohli Scores

Remember the time an animal oracle - Paul the Octopus - hijacked all the conversation around a sporting event, the 2010 FIFA World Cup. Well, there were few distractions during the India-Pakistan match in the cricket World Cup. The conversation stayed firmly focused on cricket. According to media agency MEC, the match generated 700,000 chats on a single day. Virat Kohli was the most talked-about player garnering 74,000 mentions. But brands hoping to piggyback on cricket scored dismally. Dettol, whose ad featured during the match, did figure in social chats but got more brickbats than bouquets.

There were 935.4 million mobile connections in India as on October 31, 2014. However, the number of mobile Internet users was only 159 million. Cell phones with data connections are used mostly to access e-mails, followed by social media activities

Online transactions



17%

Browse news websites



15%

Online ticket purchase



14%

Online shopping



11%

Watch live TV on mobile



6%

Accessing cloud-based storage tools



5%

High Suspense Rating

It is now almost six months since Roopa Kudva, 51, Managing Director and CEO of CRISIL for the last seven years, startled the corporate world by announcing she would be moving on. A statement from her, released by CRISIL, gave away nothing. "Change at the top at judicious intervals is a sound governance practice and allows companies to refresh themselves," it said. It added that she was "committed to ensuring a smooth transition." It is to honour that commitment that she still remains at CRISIL – for no successor has been found yet. "Roopa Kudva continues to actively manage the affairs of CRISIL and be responsible for the performance of the company," was CRISIL's reply in response to a query from *Business Today*.

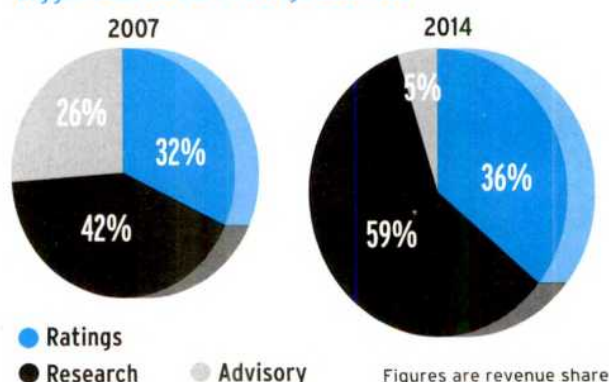
But there has been significant reshuffling of other portfolios (see *Top-level Churn*). The man widely seen as Kudva's deputy, Ramraj Pai, formerly president and business head of the ratings division at CRISIL, was shifted to CRISIL Foundation a few weeks ago, a relatively less-important position which, observers maintain, puts him out of the succession race. He has been succeeded by Raman Uberoi, who until then was president (corporate affairs) and before that, Chief Operating Officer, CRISIL. Uberoi also joined the rating agency around the same time Kudva did in

Will an outsider succeed Roopa Kudva? Six months after Kudva announced she was quitting, reshuffle and exits of senior people continue at CRISIL.

By ANAND ADHIKARI

Changing Mix

For some years now, CRISIL's research business has been bigger than its core ratings business



No clarity on her successor:
Roopa Kudva, MD & CEO, CRISIL



RACHIT GOSWAMI

1992, while Pai joined three years later. But Uberoi has been away from the core ratings business for the last four years. Apart from Uberoi, the three senior-most executives – all of them possible Kudva successors – are G. Ravishankar, Head of HR; Subodh Shah, Head of Mid-corporates; and V. Srinivasan, Chief Strategy Officer and Business Head for small and medium enterprises (SMEs). Ravishankar, however, has no business experience.

There have also been senior-level resignations. Arun Panicker, till recently Chief Analytical Officer, has quit, his place being taken by Pawan Agrawal. Mukesh Agarwal, President, Research, has also left. At the time of the writing, CRISIL's company secretary Neelabja Chakrabarty has also put in his papers. A new chief financial officer, Amish Mehta – who earlier worked with Castrol and Indus Tower, among others – has been hired.

An impression is growing that like Mehta, Kudva's successor, too, could be an external hire. "The succession process involves an objective evaluation of all interested candidates, internal and external," says a CRISIL spokesperson, obliquely endorsing the possibility. Indeed, global recruiting firm Egon Zehnder has been roped in for the search, though whichever names it suggests will be further screened by the board's three-member nomina-

Top-level Churn

CRISIL has seen a reshuffle in senior positions in recent months



RAMAN UBEROI

EARLIER
President,
Corporate
Affairs

NOW

Ratings head for large
companies & President,
Corporate Affairs

EARLIER
Ratings head
for large
companies

RAMRAJ PAI

NOW
Head of CRISIL
Foundation



PAWAN AGRAWAL
joined as Chief Analytical
Officer, replacing
Arun Panicker



AMISH MEHTA
earlier with Castrol
and Indus Tower,
joins as CFO

ARUN PANICKER
recently quit as
Chief Analytical
Officer

MUKESH AGARWAL
left as
President,
Research

tion committee: former Britannia head Vinita Bali, leading banking professional H.N. Sinor, both independent directors on the CRISIL board, and Douglas L. Peterson, CRISIL's Non-executive Chairman, who is also President and CEO, McGraw Hill Financial. "Kudva is working closely with the committee," the spokesperson adds.

The country's first and biggest rating agency – which today provides research and infrastructure advisory services as well – CRISIL, initially known as Credit Rating Information Services of India Ltd, began in 1987, promoted by ICICI,

HDFC and other financial institutions. Its first chairman was ICICI's then chairman, N. Vaghul, while Pradip Shah was managing director. Since then, CRISIL has rated over 60,000 entities, amounting to ₹36 lakh crore worth of debt, has a market share of over 50 per cent in bank loan ratings and the highest number of outstanding SME ratings. In 2014, it had a turnover of ₹1.254 crore with a net profit of ₹268 crore. Global rating agency Standard & Poor's (S&P), owned by McGraw Hill Financial, acquired a minority stake in CRISIL in 1997, going on to become majority share-

holder in 2005. It now holds 67 per cent stake.

Neither of the two earlier transitions at the top at CRISIL had created the kind of vacuum Kudva's decision seems to have. "When Pradip Shah was on the verge of leaving in 1994, the company was in shock," say Hemant Gorur and Sumit Chowdhury in their book *Doing What Is Right: the CRISIL Story*. "It was not something the employees of India's first rating company expected or wanted. It was not easy to find a man who could fill the dynamic entrepreneur's shoes." (Shah left to start his own private equity firm, Ind Asia Private Advisors.) But in fact, no crisis arose, as ICICI banker R. Ravimohan was chosen and stepped decisively into Shah's place.

Ravimohan's own departure in 2007 was positively smooth. "It was a foregone conclusion based on the transition game plan and Kudva's performance in handling the rating business, that she would succeed Ravimohan," say Gorur and Chowdhury. Kudva was then executive director and chief rating officer. "Besides, Ravimohan had managed the expectations of his senior leadership such that the entire leadership change transpired without the friction that normally accompanies a change of guard at the top," they add. It is another matter that Ravimohan himself is said to have been unhappy about the change – allegedly sought by S&P – even though he was elevated as managing director and region head (South Asia) of S&P. He went on to join Reliance Industries.

Why really is Kudva leaving and why is the transition taking so long? Officials at both CRISIL and S&P were totally tight-lipped. But *BT*, speaking to those in the know – especially former CRISIL employees, has gleaned that S&P may well have had a role to play, and that Kudva too, like Ravimohan, was offered a re-



Some people don't need hair to look beautiful.



INDIA
TODAY
Woman

What the world deems a big win is actually the beginning of a bigger battle. A battle with yourself. A battle against eye-raising looks from strangers. Even though with grit and determination you make Cancer leave your body, but it leaves some everlasting marks. Chemotherapy changes your look. The world can see that physical change but only you alone can really feel - a changed you. That's the birth of Bravery inside. Bravery with which you defeated Cancer. Bravery that has made you proud. That's your medal of honour. Bravery, that's more beautiful than beauty itself.

**Brave
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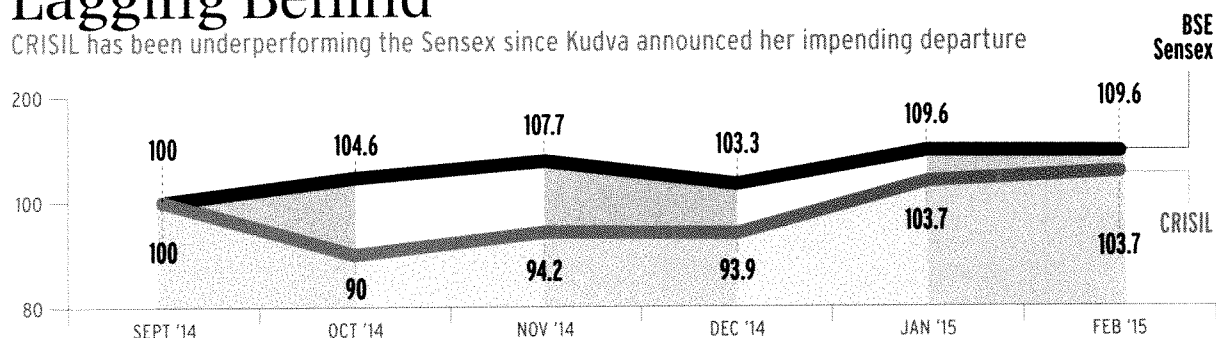
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Lagging Behind

CRISIL has been underperforming the Sensex since Kudva announced her impending departure



Share prices, Sensex values rebased to 100; data for the last day of each month; Feb figures for Feb 17, 2015; Source: BSE

gional position at S&P, which she declined. They also claim that the appointment of Neeraj Sahai, formerly with Citi, as president, S&P, in January 2014, could have had something to do with Kudva's decision. Sahai replaced Peterson, who was promoted to McGraw Hill Financial. Interestingly, Peterson has heaped praise on Kudva following her decision to leave, noting that during her tenure "the market capitalisation of CRISIL rose from ₹2,900 crore to ₹14,000 crore".

Insiders also claim there is no ready successor because none has been groomed. Under Kudva, the post of executive director remained vacant, with a president heading each separate business. Two senior people who could have been groomed were Uberoi, now the ratings head, and G.V. Mani, who quit in 2011.

Kudva, however, kept shifting both around: Uberoi, for instance, was sent from ratings to operations, then made COO, then assigned corporate affairs, which essentially meant liaising. "There was no initiative to build domain expertise," says one of the insiders. "Frequent changes created an atmosphere of uncertainty." If new leaders emerged at all, they were Pai and Panicker.

Kudva also sought to infuse fresh talent with senior lateral

hires, but none of them lasted. Sachin Nigam, who came from HSBC in September 2011 to head the SME business, quit a year ago. M. Ramsekhar, an ex-GVK Power and Infrastructure employee, who began his career in the Indian Administrative Service before moving to the private sector, joined CRISIL's risk and infrastructure business as CEO in January 2011, only to leave in a year and a half. So too Sanjeev Sinha stayed only two years as president (global research and analytics) at CRISIL.

₹268cr

CRISIL's net profit in 2014 on revenue of ₹1,254 crore

The CRISIL board, too, cannot shrug off responsibility, experts say. There are only three listed rating companies in India – CRISIL, Care Ratings and ICRA. While the other two have two company executives on the board – Care Ratings has CEO R. Dogra and Deputy Managing Director Rajesh Mokashi; ICRA has P.K. Choudhury (who recently retired as chairman) and Naresh Thakkar, the current CEO – CRISIL had only one: Kudva herself. Thus

other senior members of CRISIL have no board experience at all.

One of the key criteria on which CRISIL rates companies is whether it has a succession plan in place at the senior-most levels. It is ironical that CRISIL itself has been found wanting on this score. "Appointing a CEO is one of the most important decisions a board takes," says Amit Tandon, former head of Fitch Ratings, who now runs Institutional Investors Advisory Services.

"Yet there are few companies in India with a succession process to appoint the next CEO." The delay in appointing Kudva's successor is telling on CRISIL's share price. At around ₹2,120, CRISIL's stock is almost at the same level now as it was last September when Kudva made her announcement. In comparison, the Bombay Stock Exchange's benchmark Sensex has risen 10 per cent since then. (See *Lagging Behind*.)

Kudva's sudden exit has been as dramatic as her entry. The story goes that she barged into then MD Pradeep Shah's Mumbai office, not even carrying her resume and asked bluntly: "Would you be interested in hiring me?" In 20 minutes, despite the missing resume, Shah took the decision that would prove crucial for CRISIL – he employed her. ♦

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Dilip Shanghvi enters Suzlon as a white knight, but the market hopes he will change colours, as he did before.

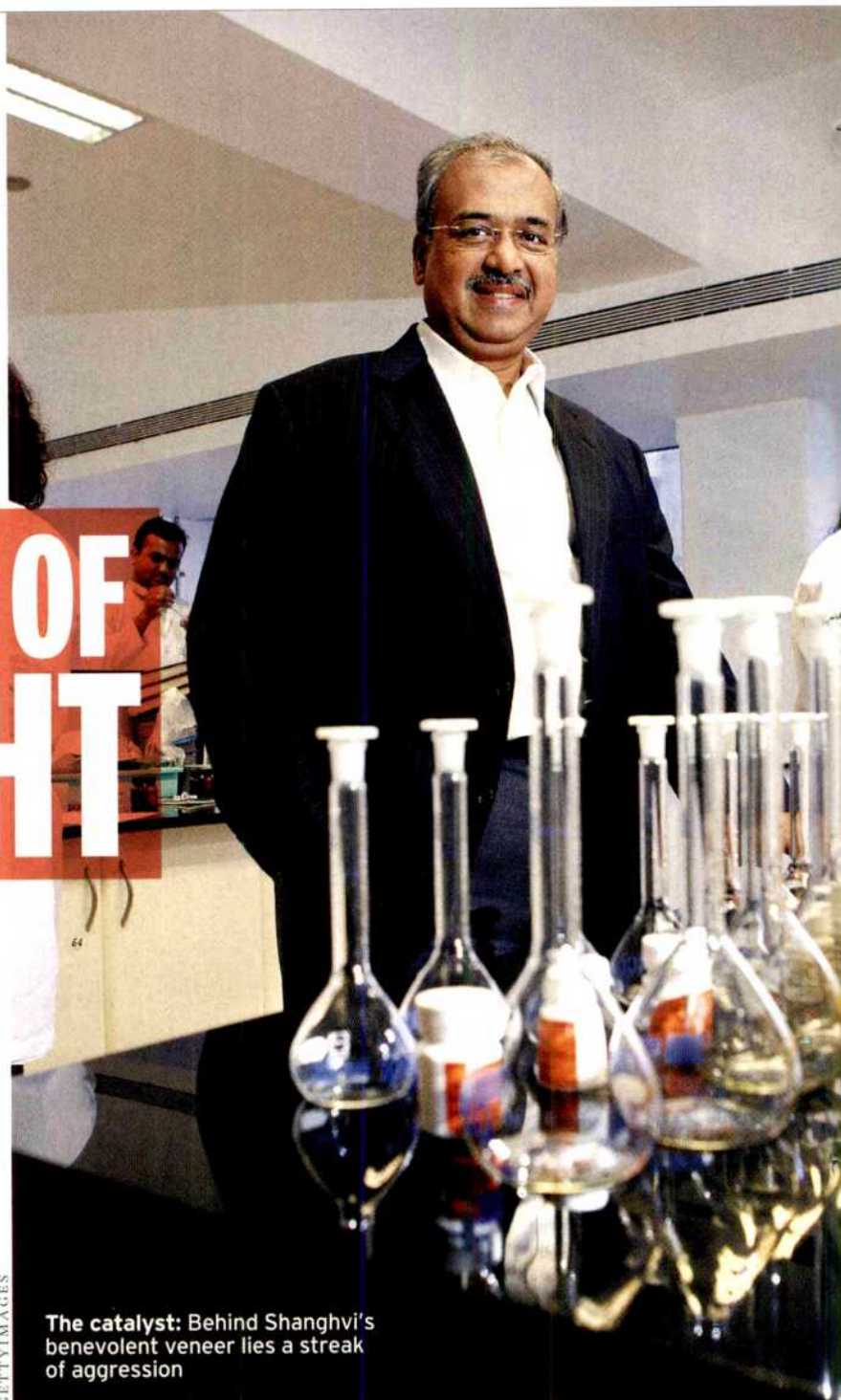
By P. B. JAYAKUMAR

COLOUR OF KNIGHT

In three days of trading after it was announced on February 8 that Sun Pharma's Dilip Shanghvi will buy 23 per cent equity in Suzlon, the troubled wind energy company's stock came to life and rose from ₹18 to ₹25.

The deal does many things for Suzlon. It infuses ₹1,800 crore of much-needed cash at a time its quarterly net loss is 17 times its sales (see *The Squeeze*). Secondly, it brings Shanghvi into the mix.

The 59-year-old is much respected by peers for making Sun Pharma a force to reckon with. He is the second richest person in India, though *The Times of India's* calculations say he is the richest. The Sun Pharma stock, after flirting with a low of just above ₹200 in 2011, has been on an incessant march upwards and is now above ₹900.



The catalyst: Behind Shanghvi's benevolent veneer lies a streak of aggression

GETTY IMAGES

The Squeeze

	Oct-Dec 2013	Oct-Dec 2014
Sales	₹506 crore	₹286 crore
Net loss	₹674 crore	₹4,960 crore*
Interest payment	₹891.71 crore	₹269.92 crore

*Net loss accounts for a notional loss of ₹6,000 crore on sale of Servion

But the stock market's new-found confidence in Suzlon may have something to do with the expectation that Shanghvi may not be content to remain a white knight – someone who rescues a company from financial difficulties or a hostile takeover bid.

It is an expectation that will be corroborated by the old promoters of Taro Pharmaceuticals, in which Shanghvi first invested as a white knight only to take control later (see *Shanghvi's Ride*). Habil Khorakiwala, a fellow Mumbai-based pharma tycoon, may testify to the keen edge of aggression that peeks out of Shanghvi's benevolent veneer every now and then. Few will be surprised if Shanghvi ended up taking control of Suzlon, which will shrink dramatically to nearly a third of its size once the deal to sell its subsidiary, Senvion, goes through.

Sudhir Valia, Shanghvi's brother-in-law, is one of those who will be surprised. He is Executive Director with Sun. Usually a behind-the-scenes "numbers" guy, he first made headlines only in 2012 when his Lakshdeep Investments and Finance Pvt. Ltd. bought 26 per cent equity in Telewings, the India arm of Norwegian telecom firm Telenor, a stake he later sold back to Telenor.

"We, the family, are not viewing this investment as an entry into the renewable energy space by trying an acquisition, it is just a financial investment to deploy our family money," says Valia. Tulsi Tanti, Chairman and Managing Director of Suzlon, seconds this. "We will remain in control of the company and DSA (Dilip Shanghvi & Associates)'s role will remain only as a financial investor."

Contrary to the impression that Shanghvi bailed out Tanti because of their old friendship – both have roots in Gujarat – Tanti says Shanghvi came into the picture only recently. "We started talking to them only in early January."

Valia says the family analysed various avenues of investment for its

Shanghvi's Ride

1995- 2005

Acquires a bunch of Indian companies like Milmet Labs, Gujarat Lyka Organics, Tamil Nadu Dadha Pharmaceuticals, Pradeep Drug Company, Vadodara-based Phlox Pharma, and MJ Pharmaceuticals and overseas companies like the US-based Able Labs and Chattem Chemicals and units of Hungary-based ICN

1997

Enters US market by acquiring Caraco and in the next four years buys out all shareholders to delist from the New York Stock Exchange; turns around the company in two years

2005-2010

Invests in Israel's Taro Pharmaceuticals as white knight in mid 2005-06 and signs a deal in 2007 to acquire the company for \$434 million. Taro's promoters back out of the deal, but Shanghvi won't let go, acquired the company in 2010 after a legal battle in the US and Israel

2011-12

Joins a winding up petition against Wockhardt for defaulting on payment of ₹470 crore worth FCCBs due to the investors, later settles the case as Wockhardt agrees to pay back in five installments

2012

Acquires two US companies: DUSA Pharmaceuticals and URL Pharma

2014

Acquires Ranbaxy Laboratories, sweating from the heat turned on by the US FDA, for \$4 billion; deal to conclude soon

money – an amount that would be considerable considering that Shanghvi received more than ₹1,200 crore in the last five years as dividend from Sun – and zeroed in on renewable energy, given its growth potential in India and the Narendra Modi government's emphasis on it.

"Suzlon is the largest renewable energy company in India and it was a natural choice for a safe long-term investment," says Valia. Shanghvi, too, seemed to be thinking long term when he said after the deal: "While we believe Suzlon has the potential to emerge as a global leader in the renewable energy space from India, it will take substantial and sustained effort on the part of the management team to achieve a significant operating performance improvement. We have strong faith in the leadership of Tulsi Bhai to achieve this and will continue as financial investors."

Analysts see Shanghvi's investment in Suzlon in tune with business families' investment trends in the West. "I see this as an emerging practice of entrepreneur families investing their personal wealth in long-term, high-growth, safe businesses run by others, unlike the old practice of entrepreneurs redeploying their wealth into the same business or for diversifying into other businesses under a group umbrella," says Kavil Ramachandran. Thomas Schmidheiny Chair Professor of Family Business and Wealth Management at the Indian School of Business, Hyderabad.

A senior pharma industry analyst, who requests anonymity, says the deal need not be seen as an attempt to acquire Suzlon. "He is trying to redeploy his personal money in businesses that give high returns, like what Ajay Piramal did after selling his pharma division." Piramal has in the recent past invested big chunks of money in Vodafone India (which he sold back to Vodafone for handsome returns) and R. Thyagarajan's financial services entity, the Sriram Group. Shanghvi, insists the analyst, is un-



SURESH GHOSH

"We will remain in control of the company and DSA (Dilip Shanghvi & Associates)'s role will remain only as a financial investor"
TULSI TANTI, Chairman, Suzlon

likely to enter businesses other than pharma in a big way.

Ramachandran, the ISB professor, says Shanghvi's role will continue to be that of a strategic advisor even though he has almost as big a stake in Suzlon as Tanti. "The main attraction for him in Suzlon could be its growth potential."

That potential is rated highly by stock analysts. "Suzlon has the best overall product offering and it lost market share primarily due to its funding constraints," say Abhinav Sharma and Rahil Shah of HDFC Securities, in a report following the deal with DSA. "The Indian wind energy market is set for a big leap as accelerated depreciation and generation-based incentives have been re-introduced."

The family's focus, agrees Valia,

Suzlon's burden

- » Consolidated debt: **₹16,500 crore**, including **₹3,900 crore** in FCCBs
- » To get **₹7,200 crore** from sale of subsidiary Servion
- » Dilip Shanghvi & Associates to infuse **₹1,800 crore** for **23% equity**
- » FCCBs worth **₹875 crore** to be converted into equity
- » **₹3,900 crore** FCCBs due in 2017-18 may be postponed to 2022-23
- » There will still be **₹6,000 crore** debt left at the end of all the deal-making

will stay on its core pharmaceutical business, which can give more returns than most other sectors. "The only diversification we have in mind in the near future is financial services." Both Shanghvi and Valia plan to enter the new business of payment banks. Shanghvi has applied for a licence; Valia's Fortune Financial Services plans to acquire 51 per cent in one of the applicants, Pay Point India Network.

But that is not the whole story. Shanghvi's son, Alok, with a friend of his, had started a solar panel-making company: PV Powertech. Suzlon, for its part, has put a proposal before the government to make solar power farms. Solar energy is an area in which the government has announced very ambitious targets.

The overlap, says Valia, is a coincidence. "We wanted Alok, once he completed his studies, to learn how to start and nurture a business from scratch. He chose solar energy and started the company along with a friend and successfully ran it for a year and then exited it to join Sun Pharma. It was to train him in business."

For the time being, Tulsi Tanti can bask in the warm glow of the Sun's rescue. But the fact remains that Shanghvi's and Valia's are perhaps no longer the only minds in the Sun family. ♦

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A Tale of 100 Smart Cities

The quest to build them and the problems on the way.

By GOUTAM DAS and MANU KAUSHIK

₹40 lakh crore

Investment required to build basic infrastructure, including transport, water and sanitation, in all urban areas, including 500 cities and smart cities

45 Minutes

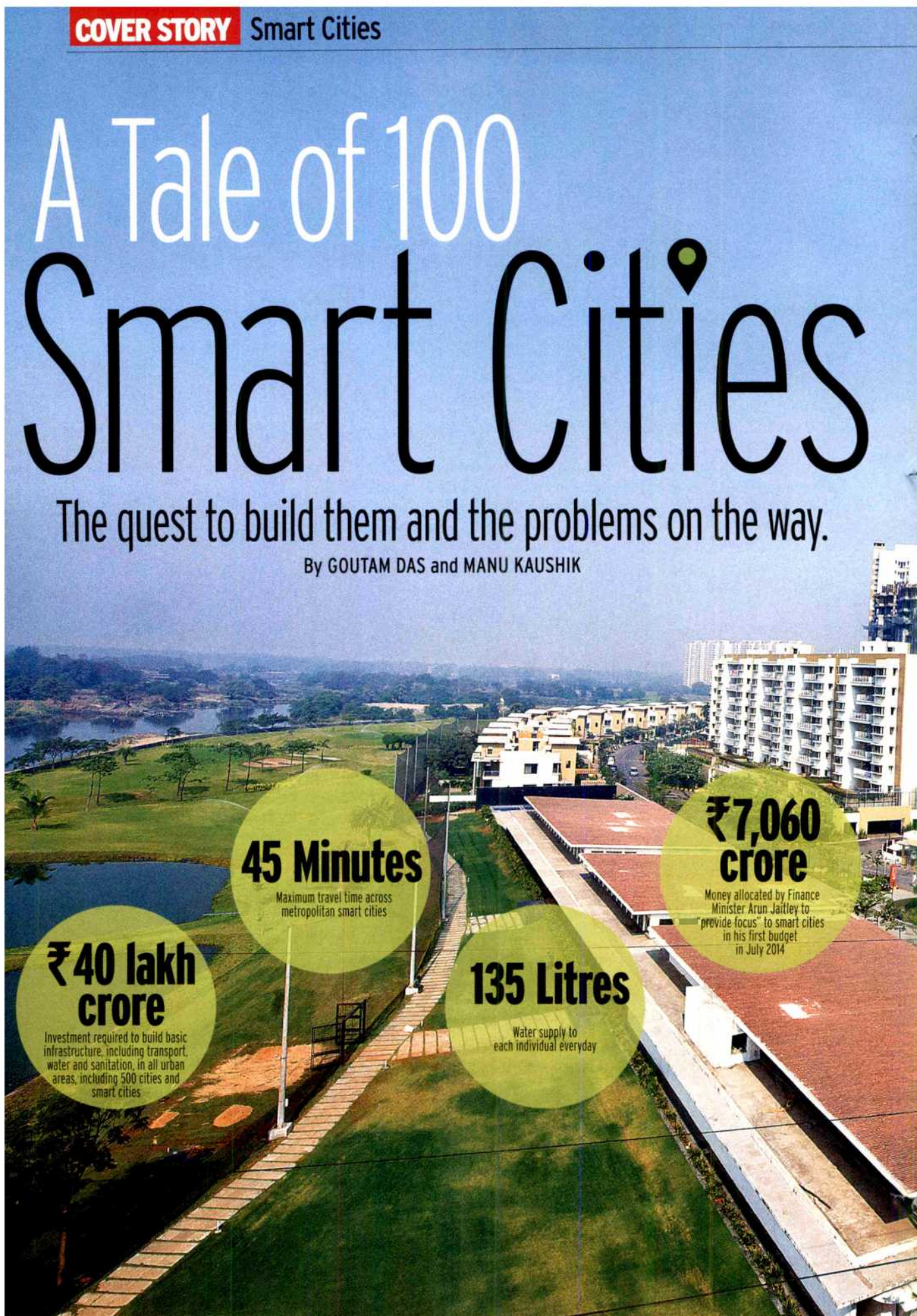
Maximum travel time across metropolitan smart cities

135 Litres

Water supply to each individual everyday

₹7,060 crore

Money allocated by Finance Minister Arun Jaitley to "provide focus" to smart cities in his first budget in July 2014



Twelve kilometres from Ahmedabad, the Sabarmati river runs dry. Two buildings, 122 metres high, tower over parcels of construction-ready and waste land beneath. Newly built serpentine roads sometimes lead to nowhere. As the sun sets over Gujarat International Finance Tec-City (GIFT), construction workers make a beeline out of a nearly complete data centre.

A decade from now, the place would rock. The river would brim with clean blue water. High rises with sparkling glass facades would form a necklace around the river curve, much like Shanghai. The tallest of them all would be the Diamond Tower, 410 metres high. After trading in equities, currencies and diamonds all day, nearly a million people would chill in cafes by the waterfront, shop at craft bazaars, or just jet ski.

If GIFT goes as per plan, it could be among India's earliest 'smart cities'. India wants to build at least a 100 of them

RACHIT GOSWAMI

100 Mbps

The speed at which Internet services will be provided in smart cities

200 Beds

Number of beds in a multi-speciality hospital for every one lakh people living in a smart city

A view of Palava city: The Lodha Group's city, near Mumbai, is based on the 'walk to everything' principle, where every home is five minutes from utility services. Energy, transport, water and waste management, are controlled by a command centre

GIFT Modi's Present

Promoted by the Gujarat Urban Development Company and engineering company IL&FS, the city has been envisioned as a financial services hub. Construction of the 886 acre greenfield near Ahmedabad is progressing well. The city will have an integrated urban transport system, consisting metro services, travelators, other public transportation options as well as pedestrian pathways. The city's infrastructure network is hidden in a utility tunnel. Smart elements include an automated solid waste collection system as well as a district cooling system.



RACHIT GOSWAMI

as per Prime Minister Narendra Modi's commitment to the nation. It's a monstrous ambition that is fast becoming a social and economic imperative as at least 50 per cent of Indians are set to live in urban areas by 2050, as against just 32 per cent today. India must provide for these 814 million people in cities with minimum disruption and least chaos. The existing cities have failed to do so for lack of focus or planning.

The Great Vacuum

The problem is that one year since Modi's announcement, India is still grappling with the nuts and bolts of setting up a smart city. Not a penny has been used from the ₹7,060 crore allocated in the Union Budget 2014 "to provide the necessary focus" to smart cities. "We have not launched the scheme yet. So there is no question of any expenditure on that account. Smart city is a new concept to India... various stakeholders have to be taken on board and you have to sustain them," says Urban Development Minister M. Venkaiah Naidu (see his interview on page 52).

We don't know what will constitute a smart city. We don't know who will certify them. We don't know how they will be funded. And, obviously, we haven't identified a smart city yet.

A 46-page concept note released by the urban development ministry attempts to answer some of those questions. It has come up with the mother of all definitions: "... cities which have smart (intelligent) physical, social, institutional and economic infrastructure which ensure centrality of citizens in a sustainable environment". Nobody disputes that definition. In fact, panelists at the BT-Nasscom Roundtable on Smart Cities called it the most

holistic definition possible. But the trick lies in execution. And there is very little to boast of that on the ground.

"It is too early to talk on smart cities," says Babul Supriyo, Minister of State for Urban Development, biting into a chicken *shawarma* as he strolled in around 8.30 p.m. on January 18 for a dinner hosted by Sushma Paul Berlia, Co-founder and President of Apeejay Styra & Svrn Group.

"The draft concept note has been prepared and placed in public domain. The website has been launched. The selection criteria for smart cities are at the final stage of approval. In coming days, before March, we will go to the expenditure finance committee and then it will go to cabinet and (it) will be rolled somewhere around the end of March," assures Naidu.

Many Shades of Smart

Still, there are no clear answers as to what a smart city is – anywhere in the world. It is one of India's struggles too. Most smart city definitions and, thereby its scope, are all western. Consulting and IT firms propound a tech-centric approach to smart cities; transport firms propose intense infrastructure-focus; utility management firms propose a citizen-centric plan and pollution control firms propose a sustainability-based approach (read the various attempts at businesstoday.in/smartcities-india).

Technology and consulting firm IBM, for instance, defines smart cities as those that "make use of all the information available from city systems, processes and people to use resources efficiently, make better data-driven decisions, and proactively anticipate and resolve problems". But for British city Manchester, smart city means



To read about GIFT's progress, go to
businesstoday.in/smartcities-gift

"smart citizens – where citizens have all the information they need to make informed choices about their lifestyle, work and travel options".

For many Indian municipalities, smartness thus far meant 'e-governance+', or anything a bit more than e-governance services. That view is changing. "Smart city is a place which is integrated – consumer to government to business; where there is optimal employment and growth and where you get the right skill sets. The growth being beyond survival issues of *roti, kapada and makaan*," says Jalaj Shrivastava, Chairman, New Delhi Municipal Corporation.

As more people migrate to urban centres for employment, cities need to get smarter about how they manage the utilities, transport and congestion, health-care as well as education. So India's concept note has put together all these to come up with one of its own.

The ministry note defines benchmarks for various services. In transportation, for instance, the maximum travel time should be 30 minutes in small and medium-sized cities and 45 minutes in metros. The water availability has to be 135 litres per capita per day. In addition, 95 per cent of residences should have retail, parks, primary schools and recreational areas accessible within 400 metres.

Advisory firm Frost & Sullivan stitches the different pieces that make up a smart city. It highlights eight parameters that make a city smart: governance, energy, homes and buildings, mobility, infrastructure, technology, healthcare, and citizen. No city has all of these and according to Frost & Sullivan, in 2025, there will be around 26 global smart cities that will have at least five of the above parameters.

Some suspect that one day a definition could be imposed top-down from Delhi. The Bureau of Indian Standards is working on a smart city standard. And while standards are generally voluntary, nothing stops the government from making them mandatory.

"We are struggling with the definition. As a country we are struggling because it's not one definition that can fit across the country," says Banmali Agrawala, President and CEO of GE, South Asia. One cannot have a common definition of what constitutes smart mobility, for instance. For a hill city, says S.B.S. Bhadauria, Secretary of Sikkim's Transport Department, smart mobility means ropeways, and not trams or buses.

Your Smart City Versus Mine

The next challenge is: how will smart cities be identified? "(The) selection process will be through competition. The willingness of the city to be reformed and

BARCELONA People's City

Barcelona positions the citizen at the centre of its smart city strategy. It is running projects in many areas to "ensure the city's residents benefit from a better quality of life and economic growth". The projects include public services, environment, mobility, infrastructure, tourism, companies and businesses, research, communications, and citizen cooperation. A government app – Apps4Bcn – allows citizens to assess and contribute to city policies. The city has a technology platform to integrate and analyse city data. It is also one of Europe's largest city with a free-access public Wi-Fi network, a new bus network based on vertical, horizontal and diagonal routes, as well as traffic lights that emit sound for the visually challenged.



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willingness of its leadership to undertake reforms and bold actions [will be assessed]," says Naidu.

The government plans to identify 20 smart cities in 2015, 40 in 2016 and another 40 in 2017. Naidu says there will be a cap of two-three smart cities per state. Though, given India's federal structure, states will have a significant say in identifying the smart cities they wish to focus on. "At the end of the day, it is the central government, state governments and urban local bodies [which] will be involved in finally identifying the cities," says Naidu. "We don't want to dictate

from Delhi [as to] which city should be made smart city in a particular state. The states will decide."

The government has to pick its 100 from 4,041 towns and cities and the Ministry of Urban Development chose a consultative approach to decide on the criteria. In January last week, it organised a workshop with the states. A city challenge programme has been announced. Cities now have to compete on several parameters to be eligible. There will be a two-stage selection process. In the first stage, cities that can compete will be picked. The selection at this stage would be based on vision, progress under the Swachh Bharat Mission, payments of salaries to municipal staff on time, information and grievance redressal mechanisms as also an e-news letter. As competition intensifies, the government will look deeper into issues such as self-financing abilities of the cities, service levels and track record in implementing reforms. That's stage two. The first leg of the city challenge programme is expected to be completed in about nine months; the central government may make some financial commitments to around 20 cities, officials in the know told *BT*. Once the cities are selected, they would either be guided to redevelop or retrofit.

Private city developers watch out. Your projects will not qualify for the "smart city" label in Naidu's scheme of things. "If it is a business proposition, he is on his own. What does he require from me? If he wants me to pat on his back, I will definitely do it," says Naidu. So despite Infosys CEO Vishal Sikka's assertion that the company's Mysore campus will be India's first smart city, that will not be the case. "They have some technology wherein they can reduce the cost of energy by 40 per cent... I will be suggesting to different cities that these are the avenues and the opportunities. They have to take part in open bidding," explains Naidu. HCC Group, which is developing Lavasa city in Maharashtra, recently made a pitch to the urban development ministry that is being assessed, though the Lavasa website claims it is "first of India's 100 new cities". "The government comes into picture where there is government investment. If they [private companies] follow the town planning and environment rules, banks will fund them," says Naidu.



RAMAKANT JHA, MD and CEO, GIFT

"There should be smartness in planning, design, development and operation of the city since inception. It should be designed so that resources are optimised"

HAMBURG Seatropolis

Hamburg has the second-largest container port in Europe with over 9.4 million containers handled every year. To prevent traffic snarls caused by trucks and loaders, the city has implemented a smart traffic management system. Information, such as traffic bottlenecks, construction work and location of containers expected to be picked up, are conveyed to drivers over smart phones or tablets. For the city residents, traffic app Switchh Hamburg prompts routes and transportation options, such as buses, taxis, cycles and ferry, and the estimated travel cost. It connects automatically to a car-sharing software and taxi app.



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On its part, the Centre is suggesting various cities to various countries that are coming forward to participate. To the US trade agency (USTDA), "I suggested Visakhapatnam, Ajmer and Allahabad. Their team has gone there," says Naidu. Japan is interested in Varanasi. Singapore is studying the model for the new capital city of Andhra Pradesh – Vijayawada-Guntur. "Australia, Germany, Sweden and France are inter-

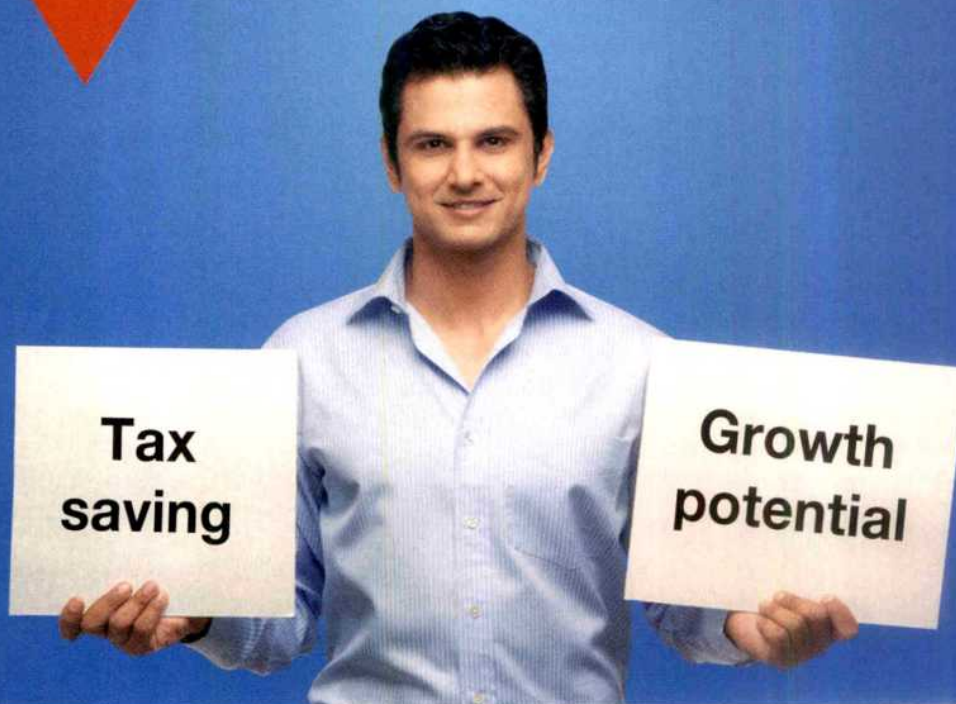
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RIO DE JANEIRO A Single View

To prepare for the 2014 Football World Cup and, subsequently, the 2016 Olympics, Rio worked with IBM and Cisco to set up an operations centre that integrated information from over 30 different city agencies to aid weather monitoring and forecast, traffic management and emergency response coordination. The city departments, which were used to working in silos, experienced a cultural change with the new centre.



SHUTTERSTOCK

ested. We are engaging them," says Naidu.

There are global examples to look up to. Barcelona, for instance, prides itself in being a liveable city. Its citizens are at the centre of the smart city strategy. "They were trying to protect the quality of life for Barcelona citizens and for tourists who come there. Smell sensors were put in garbage bins — if bins smell, it will impact the tourist," says Anil Menon, Cisco's President of Smart+Connected Communities and Deputy Chief Globalization Officer.

The Financing Conundrum

As per the urban development ministry's estimate, the 100 smart cities (and rejuvenation of 500 other cities with population of 1 lakh and above) will cost more than ₹40 lakh crore over 20 years. That includes infrastructure such as water supply, sewerage and transportation.

Clearly, the government does not have the resources to fund all of it by itself. So, the concept paper has proposed public-private partnership (PPP) to set up these cities. While there has been wild speculation about how the cities will be managed, Naidu goes a step further to confirm that he's likely to follow the GIFT model of setting up a special purpose vehicle (SPV) to manage and fund PPP projects.

Contrary to belief that the Centre will fund these SPVs, the Centre's funds will purely be used in viability gap fund-

ing (VGF). Interestingly, Naidu says the only area that will be funded directly by the Centre will be the 'digitisation' of each smart city. VGF, in turn, will depend on ratings each city secures on parameters such as sanitation, infrastructure, transport, education facilities, open public space and credit worthiness. "We will be engaging CRISIL and a lot of [ratings] organisations. Certain states already have credit ratings," says Naidu.

An SPV model will typically have three-four equity partners — the central government, the state government, municipal bodies and the private sector. A city can have multiple projects. Each of those projects can be dealt with by an SPV, which would become the nodal agency. But forming project-specific SPVs has its own challenges. It would mean devolution of power from the municipal commissioners, MLAs and other government officials to the person heading the SPV who will have executive powers. "SPVs should be delegated powers to plan, develop, execute, implement, operate and maintain. All six are equally important. Some people will not be comfortable with relinquishing their power but ultimately, the government's job should be restricted to making policies," says a government official who does not want to be named.

"As far as PPP is concerned, they can go for joint interest in which private sponsors consisting of a consortium of private companies will contribute equity to the



ANIL MENON, President, Smart+Connected Communities, Cisco

"Visionary leadership is very important... If they (the leaders) don't have a clear idea and are just mouthing smart cities, you know nothing is going to happen"

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JV [joint venture]. The model memorandum of understanding for the establishment of JV will be provided as part of the guidelines only. Capacity building will be provided by states, and cities for establishment of SPVs and JVs," says Naidu.

How will you finance brownfield projects is a million-dollar question, especially when sanctity of contracts is not respected? That's a question posed by many potential investors worried about the policy flip-flops. "If I am signing a 25-year contract, the bureaucrats will keep changing. So will the political parties, and their perceptions. I always run this risk in a country like India that my contract will not be honoured," says Harry Dhoul, Founder and Director General of the Independent Power Producers Association of India.

For the rest, many models have been suggested for financing the capital and operational investments. Brownfield projects can have three sources of income: land monetization in cases of redevelopment, user charges or squeezing out inefficiencies in the current system so that they can pay for investments. The returns on investment can be generated through land monetisation by increasing FAR – floor area ratio or total floor area of a building in comparison to the size of the land upon which it is built.

In fact, the government's concept note talks about the revision of laws governing land. "Land in cities is at a premium and the existing FARs does not permit development of high rises, which results in high cost of housing. To ensure availability of affordable housing for every citizen, the existing FARs and bye-laws needs immediate revision," the note points out.

Too Many Cooks, No Chef

No less than eight ministries need to work together to build a smart city, says B.K. Sinha, Head of Civil Engineering at the Bureau of Indian Standards. These are the ministries of urban development, IT, power, road transport and highways, water resources, labour and employment, human resource development, and consumer affairs, food and public distribution. Policies at the central level are being framed by the urban development ministry but there is no single point clearing house for contacts private investors look for.

Worldwide, there are examples of inter-departmental coordination to make things happen. The Chicago mayor's office has two positions that help different city departments work in cohesion — the Chief Technology Officer (CTO) and the Chief Data Officer

AMSTERDAM Smart Partners

The Amsterdam Economic Board, City of Amsterdam, Dutch utility company Liander and telecommunications firm KPN Amsterdam, among others, formed a unique partnership between businesses, government, research institutions and citizens, to build the Amsterdam Smart City (ASC). There are over 70 entities working towards ASC's goal to "contribute positively towards achieving CO2 emission targets, as well as aiding the economic development of the city". For instance, Philips, along with a few others, is running a pilot on an automatic street lighting system that will adjust to the weather using sensor data. The energy saved will be used to power Wi-Fi networks!



SHUTTERSTOCK

(CDO). While the CTO guides the mayor in technology choices, the CDO guides policy decisions based on spatial data. "He also has the strategic role of creating the city's open data policies, and is a prime liaison with the community. For Chicago, this community liaison role is particularly important as a significant proportion of the smart cities work in Chicago lies at the boundary between government, the community and private



BANMALI AGRAWALA, President and CEO, South Asia, GE

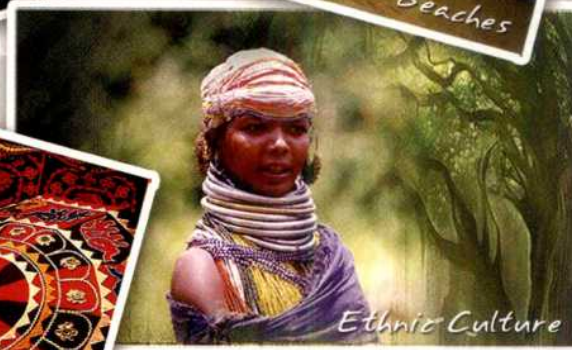
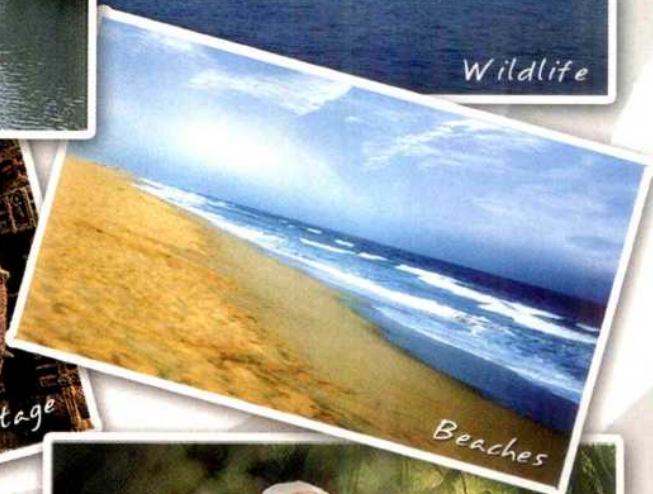
"There's no commercialisation of the smart city concept. One of the reasons why it is a challenge is that you have multiple agencies that run a city"

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**LAVASA** Hill City

Hindustan Construction Company has invested around ₹5,000 crore till March 2014 to construct Lavasa, a planned hill city near Pune. Besides ensuring a good walking town, Lavasa has a well laid out plan for water sustainability. It is setting up a command centre that monitors water treatment and sewerage systems, on a real-time basis.



RACHIT GOSWAMI

sector stakeholders," states a research paper by the UK's Department of Business Innovation and skills.

Smart cities also call for a new mindset, and both citizens and the government need to get used to new ways of dealing with private companies. The government may also need to collapse its departments to create a new structure. The private sector has solutions but it doesn't know who to sell into in cities. In most cities, the traffic, sewage system, electrical systems, and roads are each managed by different agencies. Even at the central government level, many stakeholders need to work in unison.

But in creating new solutions, it's the brownfield cities in India that face a bigger challenge. Retrofitting an old city with smart solutions imply incurring a capital cost. The government expects that most of it will be taken up either as complete private investment or through PPP.

"There are institutional platforms to discuss things openly in the presence of others. The government needs to be cautious against additional reporting structures that push up the cost of compliance," says Vishal Dhar Co-Founder of iYogi, which offers technology support services as well as services in smart housing. There are enough examples of PPP projects, especially in the infrastructure sector, not doing well in the past few years. "PPPs succeed with minimum interference," he adds.

Some point to Reliance Infrastructure's dispute with Delhi Metro Rail Corporation (DMRC). In July 2013, Reliance Infra said that Delhi Airport Metro Express, its SPV, terminated the Concession Agreement with DMRC for

the Delhi airport metro line. Reliance Infra said that DMRC failed to "cure substantial defects in the civil structure designed and built by DMRC, within the period prescribed under the Concession Agreement."

If the private sector invests, is there a visibility on returns? Companies are unsure if citizens will pay more for a better or value-added service. If there is a capital investment in say GPS systems for buses, will citizens at least pay for the operational costs in terms of higher bus fares? Or will they pay for better-quality water?

Naidu insists there are no free lunches and that the government is looking to get citizens to pay for better services. "Correcting service charges requires political stamina for a leader because all these years, we are used to free services. We made people to think *sab kaam sarkar karega, hum bekaar baithe toh chalega*. We politicians have developed this attitude over the years. Keeping that in mind, first of all, we have to change the mindset," he says.

"The key to rolling out is how we get our act together in terms of consolidation at the government level, the institutional frameworks, the roll out plans, how innovative we are in drawing the funds and keeping citizens engaged. Citizens can make or break it," says Karuna Gopal, President, Foundation for Futuristic Cities, at the BT-Nasscom panel discussion.

Despite the host of issues, a large number of private players are keen to play a role in India's smart cities story. The government's concept note says companies including KPMG, PwC, IL&FS, Accenture, Microsoft, IBM, Cisco,

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DHOLERA Future City

The 575 sq. km city in Gujarat, planned for a residential population of two million by 2042, is a work in progress. The Gujarat Infrastructure Development Board along with Delhi Mumbai Industrial Corridor are the promoters. Land use planning and preliminary pre-engineering work is complete; a design and construction tender for building 72 km of roads and underground pipelines for the first phase, is expected to be awarded in another six months. The estimated infrastructure cost for a period of 30 years stands at ₹70,000 crore. Here, the residents will not have to walk more than 500 meters to reach the nearest park or the nearest transport facility.



Wipro, TCS, Infosys and Tech Mahindra have made presentations to the ministry. All these companies bring in a wealth of global experience, and globally, some brownfield cities have managed to cut through the maze of city department silos. In Boston, there is a Mayor's Office of New Urban Mechanics, which acts as a bridge between the government and citizens. Formed in 2010, the body "builds partnerships between constituents, academics, entrepreneurs, non-profits and city staff".

Retrofitting Cities

Once the cities are selected, they would either be guided to redevelop or retrofit. Retrofitting, for instance, will be done in areas such as Defence Colony

in New Delhi as the locality is in a good condition and will need less work and investment. "That locality might require widening of roads, making cycle tracks, improvement in waste management system, Wi-Fi facilities. In this case, the cost has to be borne by the citizens," says an official of the urban development ministry. Redevelopment, on the other hand, will require large-scale changes. For example, in a congested area like in Delhi's Daryaganj, where there's not much scope of improving the infrastructure, the plan will be to demolish, and build vertically. "In such cases, the citizens will be rehabilitated to some other location for a brief period," the official says. An example of this is Kathputli Colony in West Delhi where about 2,800 families will resettle for about two years in semi-permanent structures in Anand Parbat. The slum is being redeveloped. "Redevelopment is inevitable because greenfield projects take time," says N.S.N. Murty of PricewaterhouseCoopers. He says that for redevelopment, the government should first pick up either waste land or land holdings with PSUs within cities.

"You have to create an engine that will propel itself. One principle lever is FSI in a city. When Chandrababu Naidu was the chief minister of Andhra Pradesh, they were looking at widening roads. The method then was to decide on how much had to be widened and acquire the land. The new method was to give extra FSI to build. So people demolished their building and went vertical," says Nasscom President R. Chandrashekar.

"People are thinking that smart cities can be created like this," says Naidu, snapping his fingers. "You cannot rebuild the entire city. It all depends upon the criteria, willingness and preparation of those urban local bodies. For example, if you are going for metro [project], Metro is going to cost Rs 200 crore per km. Somebody has to study it otherwise companies will not come and invest here. Some feasibility study has to be made. Then, [it is] people's willingness. It will be put to general body discussion in corporation. There will be project monitoring units which will evaluate smart city proposals for extending VGF," says Naidu.

The Coming Gold Rush

The ₹40 lakh crore that will flow into the smart cities implies a gold rush for consultants, architects, engineering, technology and construction firms as well as the banks and other financiers.

Almost every month, there is a smart city conference in New Delhi; consultants trumpet their global



AJAY THAKURI

WHAT MAKES A CITY SMART

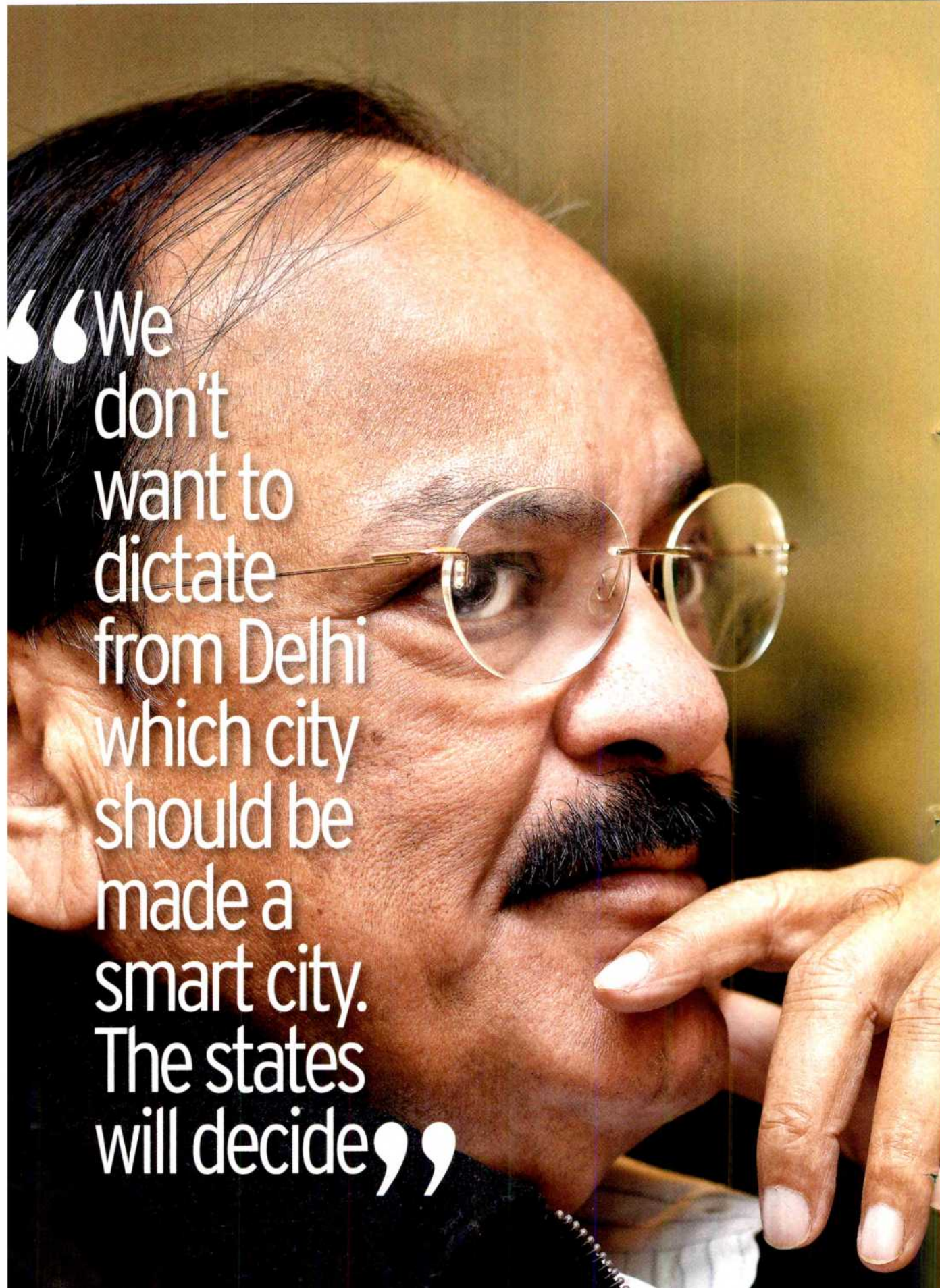
SMART CITY	DUMB CITY
Low power theft will result in high collection for power distribution companies and adequate power supply throughout	High power theft results in power shortage and frequent blackouts
Better traffic flow, low pollution levels and free parking for citizens even during high traffic flow	Congestion, slow-moving traffic, lack of parking lots and high pollution levels
Unified city view will result in better planning in maintaining the city and low costs of execution	No unified city view results in periodic digging up of roads to upgrade existing facilities, but to no avail
24/7 water supply and efficient metering will result in higher collection for service providers	Water shortage and non-metered supply results in revenue losses to service providers
Low instances of medical errors and high efficiency in hospital operations	High cost of healthcare due to limited record of health history of citizens
Efficient information sharing between citizens and government agencies	Extensive role of middlemen
Competition between cities to attract investment through ease of rules and clarity on regulations	Lack of details for investors on the investment potential of the city

Source: NASSCOM, PwC

experience, self-styled smart city experts lecture on the path India must take, companies crowd to talk about their expertise. Those carrying out the civil work of roads construction, laying pipelines and fibre may bag the biggest chunk of the yearly spending that is expected to be required for just the infrastructure work – water supply, sewerage, sanitation and transportation. “Typically, in a project, around 85 per cent is construction cost,” says Jagdish Salgaonkar, Senior Vice President at programme management company AECOM. Construction costs include labour, material and equipment. In smart cities, equipment such as routers, cameras and sensors can add up to a significant cost. “Only about 15 per cent is non-construction cost. That is what consulting, architect, civil engineering, programme management, ICT planners, and legal services companies among others can bag,” Salgaonkar adds.

Consulting, design, engineering and construction companies have been making a beeline to Nirman Bhawan, the hotbed of smart city brainstorming. Many of them are a frustrated lot after a year of chasing the government. But the reality is, you can't fault the Centre for moving slow on the smart cities initiative. It is, after all, a work-in-progress. Here, as well as anywhere else in the world. And despite the various models in action around the world, India will have to develop its own unique model of smart cities that will prioritise local issues in body and soul. The earlier it does that, the better it will be for the great urban push. ♦

@Goutam20; @manukaushik



“We don't want to dictate from Delhi which city should be made a smart city. The states will decide”

The ambitious programme to build 100 smart cities is one of the top priorities for Prime Minister Narendra Modi-led government. In a conversation with **Manu Kaushik and Rajeev Dubey, Minister of Urban Development**, **M. VENKAIAH NAIDU** discussed the progress of this grand scheme. Excerpts:

In the last budget, some ₹7,060 crore was set aside for smart cities. How much money have you spent so far?

That is for smart cities and urban rejuvenation of 500 cities which have one-lakh-plus [population]. We have not launched the scheme yet so there is no question of any expenditure. It is a new concept and various stakeholders have to be taken on board.

How much have we progressed in terms of identifying what should be considered a smart city? Will it be a central government initiative or will state certifications be required?

The cities are the prime centres of economic activities and 60 per cent of

the GDP comes from cities. At the present rate of urbanisation, this may go up to 80 per cent. Keeping that in mind, the PM has given this concept of 100 smart cities. Smart city is making lives of people in a particular city more comfortable and liveable. To make a city smart, you need smart leadership. Not in physical terms but in terms of vision and taking bold decisions. For example, correcting service charges requires political stamina for a leader because all these years, we are used to free services. We made people to think *sab kaam sarkar karegi, hum bekaar baithe toh chalega*. We have to change the mindset. The PM told us people should be central to the smart city concept.

People come to cities for education, employment, entertainment and economic activity. Along with that, they need better health facilities. With regards to the expenditure, there is a huge requirement. If you conceptualise smart cities and then count it in academic terms, our rough estimates, for 100 cities itself, you will need around ₹40 lakh crore in 20 years to ensure basic infrastructure in all urban areas, including 500 cities and smart cities. The government alone cannot provide this [money]. So we are going for the PPP model (public-private partnership) by involving the private sector in a big way.

The selection criteria are at the final stage of approval. In the coming days, before March, we will go to Expenditure Finance Committee (EFC) and then to the Cabinet. It will be rolled around March end. [Smart cities] selection will be [done] through competition. The willingness of the city and its leadership to take reforms and take bold actions [will be assessed]. A detailed project report and appraisal approved by the government will follow once this competition is over. I am also planning to have gradation of each city

based on sanitation, infrastructure, transport, education facilities, open public space and credit worthiness.

Who will do that – Centre or separate agencies?

How can our officers do it? We will be engaging CRISIL and a lot of organisations. For example, certain states already have credit ratings, like Maharashtra.

So the central funding will be based on the ratings?

Naturally. [It is their] willingness to reform. These challenges will be designed in such a way that it will incentivise more cities to participate.

Is there any cap on the 100 smart cities?

As of now, it is 100. If you have more money, then you can go for more [cities].

Does this include greenfield and brownfield cities?

Yes. Construction of greenfield cities is a little more tough as you need huge money and land. Land is a rare commodity nowadays. Still, there is a scope for small greenfield cities. Starting from 2015, we may think of 20 cities. In the next year, we will go for 40 cities and then 40 cities in the year after that. We must create some models, some pilot projects that will inspire others to join this.

People's aspirations are growing. They know what is happening worldwide. Everybody wants a smart city. Every MP wants a smart city, every state government wants it and every city wants to be a smart city. They are unable to understand its implications. We have to tell them that smart city programme will focus on four strategies: retrofit-

PHOTOGRAPH BY VIVAN MEHRA



ting, redevelopment, greenfield and pan-city infrastructure.

Can a private developer, let's say with 8,000 acres of land, approach the Centre and ask if it qualifies to be a smart city?

If it is a business proposition, then he is on his own. The government will not fund it but will help him get permissions. The other day Lavasa made a small presentation. I am studying in-depth what is Lavasa, its background and why it was stopped. If somebody wants to create a city with good habitation, facilities and also takes care of the environment, why should the government stop it.

So you will not enter into PPP model with them?

We won't fund the private projects. I am asking private players to join the government funding. Private people can partner with state and city and if that proposal comes to me, I will support them.

GIFT in Gandhinagar is a state project. Will something like that qualify for a smart city?

I have told the states that I will give you guidelines for smart cities, the choice is yours. We are in a federal set-up. We want to operate on the principle of cooperative federalism. We want to work as team India. We don't want to dictate from Delhi [as to] which city should be made smart city in a particular state. The states will decide. If Gujarat wants to have Gandhinagar as a smart city, that is their choice. I will only come into the picture to tell them that these are the guidelines and criteria.

I had consultations with all the states. I had a meeting with secretaries of the municipal administrations of every state at the national level. There was a two-day workshop on

this. Many countries have come forward saying that they want to participate. There's a lot of interest across the globe to participate. How far it will translate into action, how far they will be able to walk the talk, we have to see. Companies like Infosys and Wipro want to have IT-based services to play an important role in smart cities.

So will you say that Infosys' Mysore campus is a smart city?

I don't. Infosys will engage in one of the cities and offer them services. They have made a presentation. They have some technology wherein they can reduce the energy cost by 40 per cent. I will suggest different cities that these are the avenues and these are the opportunities. They have to take part in open bidding.

Cities will have to create a Special Purpose Vehicle (SPV) consisting of urban local body, state and central governments for planning, implementing, managing and operating the projects, for which the funds shall be released by the Centre. As far as PPP is concerned, they can go for joint interest in which private sponsors consisting of a consortium of private companies will contribute equity to the joint venture (JV). The model memorandum of understanding for the JV will be provided as part of the guidelines only. Capacity building will be provided by states, and cities for establishment of SPVs and JVs. Digitisation will be funded by the Centre for any city.

Will the Centre fund a part of the SPV?

We will be funding through viability gap fund.

Eventually, will there be a certificate given by the ministry of urban development?

I don't use the word certificate. It will be handholding. I am engaging all the companies and countries who are interested and [will] show that these are the cities that have been qualified. We will be acting as a guardian.

Are you putting any ceiling on the number of cities per state?

The idea is to have two-three [cities] per state, and at least one in north-eastern states. Capacity is an important thing.

Can our legal system take care of all redevelopment? Legislature has to be involved in creating new laws.

I don't think there's any need because municipal bodies have enough laws. This has to be worked out locally.

It seems it will require bringing together many government departments and making them fewer for better coordination.

That's an altogether different subject of minimum government and maximum governance. I am simultaneously working with six-seven ministries. Approvals have to be minimised. People are talking about single windows. It's not possible. We had one round of consultation with six ministries. They are working on how to ease [the process] of getting approvals and permissions.

How will the synchronisation between six-seven ministries happen?

I have already set up a committee with our secretary to coordinate with those ministries. I myself had a meeting with the ministers. ♦

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Patently Justified

The US is mounting pressure on India to agree to its terms in pharma IP protection. How long can India resist? By P.B. JAYAKUMAR



Y

ou will find a climate that encourages investment and rewards enterprise. It will nurture innovation and protect your intellectual property," said Prime Minister Narendra Modi at the Indo-US CEO summit in New Delhi recently in the presence of President Barack Obama.

Modi's words would have been music to the ears of Ian Read, CEO of American drug maker Pfizer. Read has been among the most vocal critics of India's patent laws that, he believes, favour domestic pharmaceutical companies. And his concerns are shared by several other top honchos of US pharma giants.

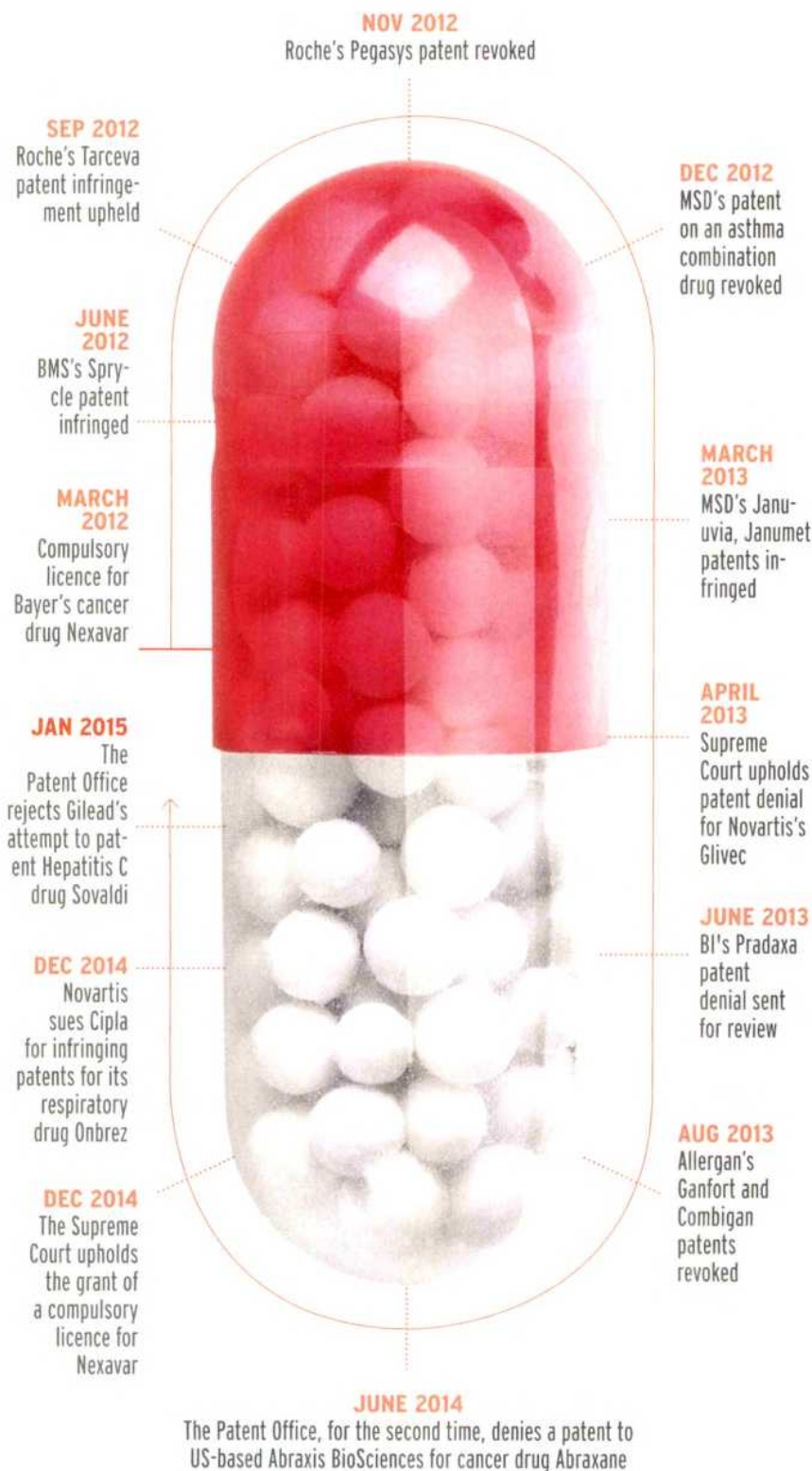
The US Chamber of Commerce's Global Intellectual Property Center (GIPC) recently ranked India near the bottom in a survey of global intellectual property environment. Indian pharma companies allege that the multinational drug lobby in the US sponsored the survey.

Indeed, well before the Obama visit, apprehensions were growing about the increased pressure on the government of India to dilute its patent rules. "The US is pushing India to play by its rules on intellectual property, which we know will lead to medicines being priced beyond the reach of millions of people," warns Manica Balasegaram, Executive Director of international humanitarian agency Medicines Sans Frontiers' (MSF) Access Campaign.

Apparently, India did not yield ground to US negotiators. But how long can India resist US pressure? The Prime Minister already appears to have taken a conciliatory approach. "India is party to the WTO (World Trade Organization) and if any country has an issue with India's patent laws, then they should raise it at the WTO. We can have bilateral talks with any country on trade, but not IPR (intellectual property rights) laws," says Y.K. Hamied, Chairman of Cipla, India's second-largest drug

BITTER PILL

The major patent disputes in India over the past three years



maker by sales.

Here's the crux of the problem.

Ian Read and other CEOs of US-based pharma majors are miffed that India allows domestic companies to launch cheaper variants of patented medicines in public interest under the "compulsory licensing" clause of the Indian Patents Act. US companies call it patent violation while the Indian government calls it a legitimate right. Indian laws also clearly rule out patents for molecules invented before 1995, incremental innovations and previously known molecules. "At least 500-600 patents would have been denied under the section on innovations (Section 3d) in India's patent law," says an expert.

In essence, US-based pharma MNCs are wary of litigation and generic companies infringing their patents. "Three-fourth of these products (48 patented drugs launched in India) are under threat," complains Ranjana Smetacek, Director General of the Organisation of Pharmaceutical Producers of India (OPPI), the association of about 30 MNC drug companies operating in the country. "Five patents have been revoked and more than 11 are under challenge by way of infringement. Patents on an additional seven products are involved in pending opposition proceedings, while one patent is under compulsory licensing. A dozen others are under 'review'."

The US is putting pressure on India because increasingly governments around the world are modeling their pharma laws on the lines of the Indian Patents Act. In 2008, for instance, China introduced a new pharma law which has been largely inspired by Indian laws. "Indian patent laws are being modeled or being considered by about 30 to 40 developing countries to ensure rights of their patients and this is one reason for the pressure to change our laws," says Gopakumar G. Nair, Chief Executive of Gopakumar Associates, a leading Indian patent firm.

US companies assert that the fear



Interview of Andreas Barner at
businesstoday.in/boehringer-barner

of compulsory licensing is the primary reason why they are reluctant to launch new drugs in India. Indeed, of the 268 drugs approved by the US Food and Drug Administration since the product patent regime came into effect in India a decade ago, only 48 have been introduced in the country. The Indian pharma industry, however, points out that all the 268 drugs have not been launched in any market other than the US. There is no guarantee that American companies would bring them to India, whether compulsory licensing existed or not, they assert. Besides, those who can afford these high-priced medicines have already been importing them from the US, they add. "The decision to introduce a new drug in a market like India is taken based on several factors including disease and drug profile," says Ranjit Shahani, Vice Chairman and Managing Director of Novartis India.

The Story So Far

Indian pharma's tug-of-war with US companies goes back several decades. In 1972, India adopted the process patent regime. It allowed local firms to develop alternate manufacturing processes (through reverse engineering) of existing patented medicines and sell them in the domestic market as generic or branded generic medicines. It was the genesis of India's domestic pharma industry and the real reason why medicines in the country continue to remain affordable for the common man. The flipside was that it encouraged Indian companies to continue copying patented medicines and not invest in developing new drugs. Some tried – such as Ranbaxy Laboratories, Dr Reddy's Laboratories and Glenmark Pharmaceuticals – but failed.

The West asserted it was blatant patent violations by Indian companies. And under pressure, India adopted the product patent era as part of the WTO-TRIPS (Trade-Related Aspects of Intellectual Property Rights) obligations. Domestic manu-

**"IDEALLY, THE
PATENT RULES
SHOULD FOSTER
AND BENEFIT
INNOVATION"**
ANDREAS BARNER,
Chairman, Boehringer
Ingelheim

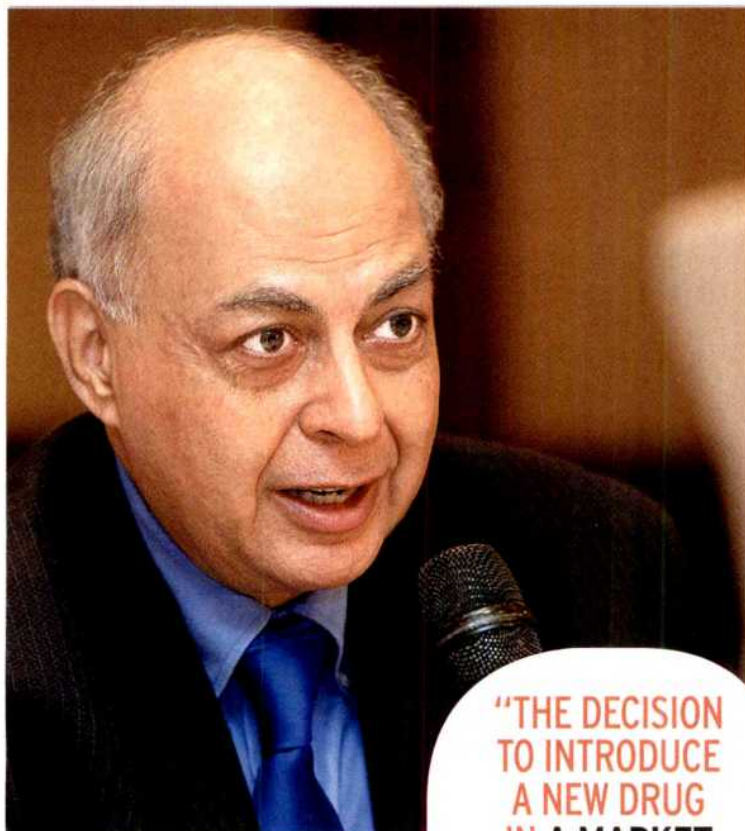
facturers feared that it could kill their business and multinationals would dominate the market. That was not to be. First, MNCs rarely launched high-priced patented products in the price-sensitive Indian market fearing copied generics. Two, they feared compulsory licensing. As a result, both MNCs and Indian companies made their money from selling generics in the country. "Ideally, the patent



rules should foster and benefit innovation since many Indian companies are also into patenting their products," says Andreas Barner, Chairman of Germany-based pharma giant Boehringer Ingelheim.

Affordability vs Innovation

In March 2012, P.H. Kurien, the then Controller-General of Patents, Designs and Trademarks, awarded the first-ever and, so far, only compulsory licence to Natco Pharma to sell a generic version of Bayer's anti-cancer drug Nexavar. The objective was to make the drug affordable and easily available. Natco's generic version was priced at ₹8,800 for a month's treatment. The innovator priced the drug at about ₹2.8 lakh for



RANJIT GOSWAMI

"THE DECISION TO INTRODUCE A NEW DRUG IN A MARKET LIKE INDIA IS BASED ON SEVERAL FACTORS INCLUDING DISEASE AND DRUG PROFILE"

RANJIT SHAHANI,
VC & MD, Novartis India

the same treatment period. Bayer appealed the decision in various courts but could not get the decision reversed. Kurien, currently Principle Secretary for Industries and IT in the Kerala government, declined to comment on the matter.

US firms fear that the government may recommend extending compulsory licensing for non-communicable diseases such as diabetes, arthritis and cancer without any exigencies as elaborated in the Patent Act. "The threat of compulsory licensing continues to hang over us and another big concern for the industry is the lack of effective Regulatory Data Protection for commercially valuable test data in India (clinical trials data)," says OPPI's Ranjana. Patent experts say compulsory licensing is not an easy tool to manipulate. "There has to be negotiation for licence between the innovator and the generic maker and the patent office has to consider various factors for invoking compulsory licensing including factors like emergency situation, affordability and availability,"

notes IP expert Adheesh Nargolkar, Partner with law firm Khaitan & Co.

But pricing is a major factor for most MNCs to ignore or delay launch of drugs in India, where most lack medical insurance cover. "Many of the global drugs were launched in India at half the price in developed countries and in many cases at 30-40 per cent of the prices in developed countries," says Kewal Handa, former managing director of Pfizer India. Multinationals are careful about launching drugs in India as the cost of drugs in the country is likely to influence pricing in many other countries such as Indonesia and Philippines, he adds.

Differential pricing has another adverse fallout for MNCs. Several syndicates have started importing cheaper drugs from India into the US and UK markets. There has been a massive crackdown on such syndicates in recent years. Indian drug regulators' right to control prices of life savings drugs – through the Drug Price Control Order – is another reason for MNCs to refrain from launching new drugs in the market. "Access to patented medicines is not merely restricted because of prices of the medicines and most innovator companies have extensive 'access programs' to support needy patients," says Shailesh Ayyangar, Managing Director and Vice President-South Asia, Sanofi and President of OPPI.

Patient groups note that India's strict patent regime was one reason for making many drugs available in India at affordable prices. Cancer Patients Aid Association (CPAA) Chairman and Chief Executive Y.K. Sapru notes that interventions and patent challenges by patient groups have helped to reduce the prices of many drugs. "Still, cancer drugs like Herceptin are available in India only at a very high cost," he says.

Experts cite Gilead Lifesciences' blockbuster hepatitis C drug, Sofosbuvir (Sovaldi), as an example on how generic competition can bring down prices. The oral drug, which first received regulatory approval in the US in November 2013, costs \$84,000 for a treatment course, or \$1,000 per pill. Recently, the Indian Patent Office rejected patent for this drug citing incremental innovations. Gilead subsequently gave licenses to select generic manufacturers for selling this drug in India at lower prices.

A study by Liverpool University observes that Sofosbuvir could be produced for as little as \$101 for a three-month treatment. "We know from various manufacturers in India that they could produce this drug in the future for as little as \$101 for the full three month treatment course.

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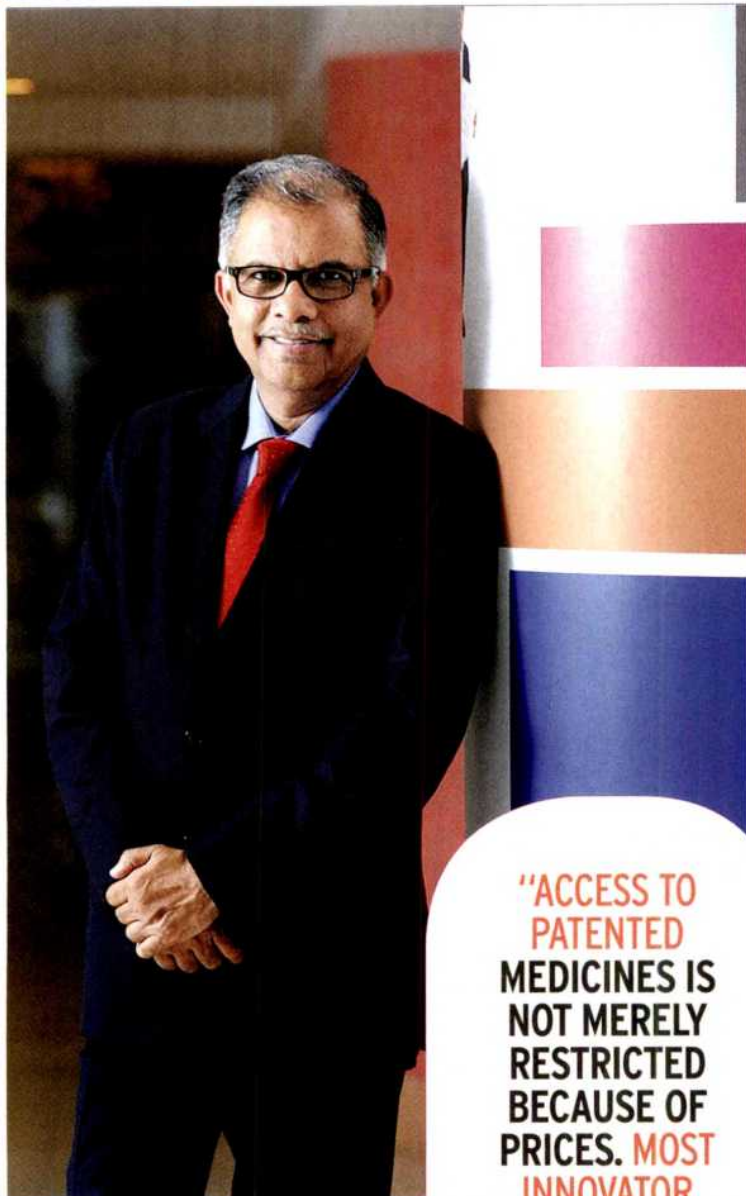
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S. KUMAR

That's roughly \$1 per pill," says Dr. Andrew Hill, Senior Research Fellow, Department of Pharmacology and Therapeutics, Liverpool University.

Differential Pricing Strategy

MNC drug makers claim that despite the 'troubles' in India, they do bring drug innovations to the country. Clearly, a big market like India is difficult to completely ignore. Ranjit Shahani says his company introduced eight new drugs in the Indian market in the past two years in the areas of neurosciences, oncology, pain management and eye diseases.

**"ACCESS TO
PATENTED
MEDICINES IS
NOT MERELY
RESTRICTED
BECAUSE OF
PRICES. MOST
INNOVATOR
COMPANIES SUPPORT
THE NEEDY"**

**SHAILESH AYYANGAR,
MD & VP-South Asia, Sanofi**

In the past few years, GSK launched two patented products, Votrient and Revolade. It has also introduced Hycamtin, a GSK product having its patent in the name of SmithKline Beecham.

"In the recent past, we have introduced new medicines in oncology. We have also launched drugs for the

treatment of diabetes and knee osteoarthritis," says Sanofi's Shailesh Ayyangar. Roche, which did not bring any new drugs into the Indian market in the last two years, plans to launch two new drugs this year, provided the Drugs Controller General India gives the green signal. Its key products in India include breast cancer drug Herclon and Xeloda, used to treat patients with colorectal, breast, or colon cancer.

Novartis plans to introduce four new products and two line extensions in the areas of congestive heart failure, oncology, pain management and respiratory diseases. "The product patent era did not turn out to be as feared. I think the share of multinationals may increase to about 10 per cent of the Indian pharmaceutical market from the current two to three per cent within the next five years, and then it will be a concern for Indian drug industry and patients," says S.V. Veeramani, President of the Indian Drugs Manufacturers Association and CMD of Fourrts (India) Laboratories.

Handa, the former Pfizer executive, points out that going ahead MNCs are going to adopt differential pricing for their drugs in India and will rope in alliances with domestic generic companies as happened in the case of Sovaldi. "MNCs will resort to such mutually beneficial voluntary licenses that help to avoid litigations," says Adheesh Nargolkar.

Whether or not India will change its patent laws to gain the confidence of US drug firms, most stakeholders agree that availability of affordable quality medicines to Indian population should be the priority of the government. "Unfortunately pricing is the only factor that seems to be in focus with little attention being paid to the larger issues that impede healthcare access such as lack of healthcare infrastructure, absence of large scale health insurance among others," sums up Shahani. ♦

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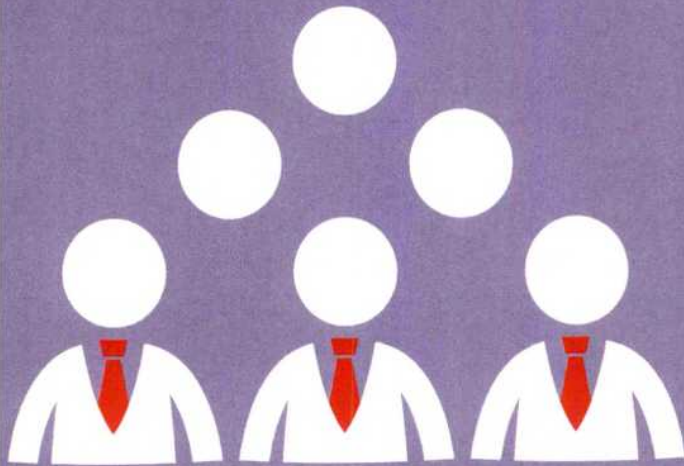


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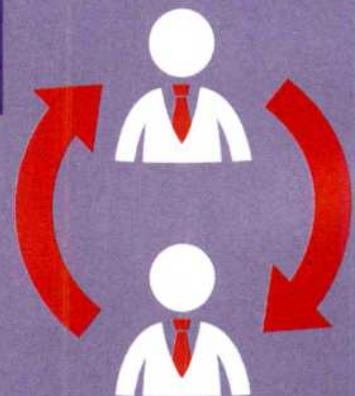
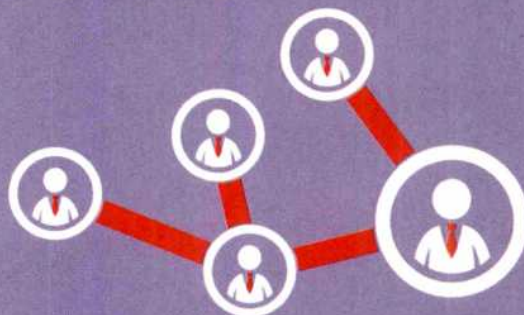
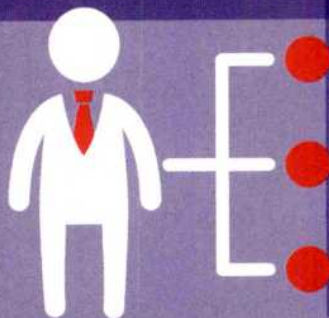
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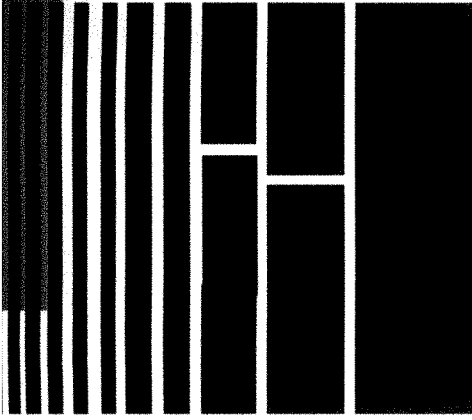


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EXECUTIVES

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Satheesh Krishnamurthy



Gunjan Shah



hen it comes to spotting talented young leaders, India Inc. has generated hundreds of successes – division heads, business heads and function heads – who are 40 years of age or less. It is a trend *Business Today* has chronicled since 2002, when we began our signature listing of India's Hottest Young Executives. Many names in that famous first list went on to much greater glory in the ensuing years – such as Ruchir Sharma of Morgan Stanley Investment and Prasoon Joshi of McCann.

Corporate India's quest for spotting young talent and giving them leadership mandates reached the tipping point in 2012, when the Tata Group – one of the country's oldest business houses – appointed 44-year-old Cyrus Mistry as its Chairman. Since then, the group has been refreshing its top rank to induct young leaders. For instance, Mistry hired 38-year-old Madhu Kannan in 2012 as the Tatas' Group Head of Business Development. Kannan, who was CEO and MD of the Bombay Stock Exchange then, had featured on *BT's* Hottest Young Executives listing in 2011.

Kannan is one in a long list of people that *BT* spotted early on. Saugata Gupta, current MD and CEO of Marico, was heading a division in 2008 as CEO of Consumer Products, Marico when he featured on our list. Gopal Vittal, who took charge as CEO of Bharti Airtel in 2013, featured in *BT's* listing in 2007 when he was Regional Category Vice-President, Fabric Cleaning, Hindustan Unilever. (See *The Trailblazers*).

For a country with India's young demographic, you would imagine this situation can only get better. But that may not exactly be the case. Seven years ago, leadership search firm Egon Zehnder did a study on CEO talent with Nitin Nohria, Dean of Harvard Business School. The study found that only 15 per cent of companies in North America and Asia had the right number of qualified successors. In fact, when it again did a survey late last year to update the findings, there was a terrible rate of depletion in the level of successors. "The thing to worry about is that talent in the age bracket of 35-44 years is shrinking," Claudio Fernández-Aráoz, Senior Advisor to Egon Zehnder who founded the firm's appraisal practice, told *BT* during his trip to India late last year. This, according to him, has been triggered by three key dynamics at play: globalisation, demographics and talent pipeline.

As several Indian companies turn multinational in the true sense, they realise that their global competitiveness is dependent upon the pipeline of business leaders they are able to develop. "Leaders who are able to nurture innovation, leverage technology, nurture a culture of meritocracy with sensitivity, scale businesses responsibly, set new market agenda and disrupt the status quo

BUSINESS TODAY'S NINTH LISTING OF THE BEST AND THE BRIGHTEST CORPORATE PERFORMERS UNDER 40.

By SHAMNI PANDE

Amrita Pandey



Manu Kumar Jain



Gaurav Banerjee





OUR JURY



RACHIT GOSWAMI

(Standing from left) K. Sudarshan, Purvi Sheth, Rekha J. Koshy, BT's Suveen Sinha, Manish Pajan, Lakshmi Narasimhan; (sitting from left) Vivek Paranjpe, K. Ramkumar, Santrupt B. Misra

HOW WE DID IT

Professional executives less than 40 years qualify for this listing. Business founders and their relatives are not included, unless they are employed in a company where their family has no stake. Also ruled out are executives of Indian origin who are handling operations outside the country. Plus, people need to have put in at least a year in their current roles. Borderline cases are considered only if they have handled similar responsibility within the company before taking charge. Like in previous years, we partnered five executive search companies for the initial listing. They drew up – separately – their own lists, which added up this year to nearly 100 names. They then met to debate this list. The companies were represented by Purvi Sheth, CEO, Shilputsi Consultants; K. Sudarshan, Regional Managing Partner-Asia, EMA Partners International; Rekha J. Koshy, Partner, Accord Group; Lakshmi Narasimhan, Associate Director, RGF Executive Search; and Manish Pajan, Executive VP, DHR International.

This year, we introduced a three-member jury to moderate the discussion. The jury members were Santrupt B. Misra, CEO, Carbon Black Business & Director, Group HR, Aditya Birla Management Corporation; K. Ramkumar, Executive Director, ICICI Bank; and Vivek Paranjpe, HR Consultant. In fact, Misra was on BT's first Hottest Young Executive listing in 2002. Jury members were intensely discerning in their choices and had several screens in mind. For instance, Ramkumar probed to see if the talent was in the key space central to the company's needs. Misra was keenly conscious of the performance of various segments and the balance of choices, while Paranjpe asked about not just work performance, but behaviour and contribution beyond as well. The outcome of that discussion is on the pages of this package.

are rare," says K. Ramkumar, Executive Director of ICICI Bank and one of India's leading HR professionals. "Institutions which invest in developing these kinds of leaders are likely to be globally competitive."

So, what do young leaders bring to the table apart from the usual – greater passion and energy? There are other critical reasons, too. "It is important for those in leadership roles to relate with a younger workforce demographic," says Purvi Sheth, CEO of Shilputsi Consultants. "That makes younger leaders extremely crucial to managing and developing talent and steering the business." Adds Lakshmi Narasimhan, Associate Director, RGF India: "Today's young leaders have high risk appetite and thrive well in the VUCA (volatile, uncertain, complex and ambiguous) environment. Unfazed, open minded and 'being a sport' depicts the new generation of leadership."

Catch 'em Young

Spotting leadership talent early is easier said than done. Some top companies have put in robust processes for this purpose. There is the obvious option of lateral hiring of talent from other companies. But, equally, companies are putting in place measures on a war footing to tap talent at the formative stages from colleges as well.

For instance, Egon Zehnder's Fernández-Aráoz points out that Tata Consultancy Services – India's biggest company by market value – has evolved a method of assessing talent productivity against their cost to the company. The company then makes blanket offers to certain colleges from where talent has shown consistent good results in the past. In turn, the company has shown consistently good results over the years, which naturally is an outcome of talent within. The correlation, of course, is not so simplistic – many other factors are involved in a company's



**"WE NEED IMAGINATIVE
YOUNG LEADERS WHO
ARE WILLING TO STICK THEIR
NECK OUT AND CHALLENGE
THE STATUS QUO"**

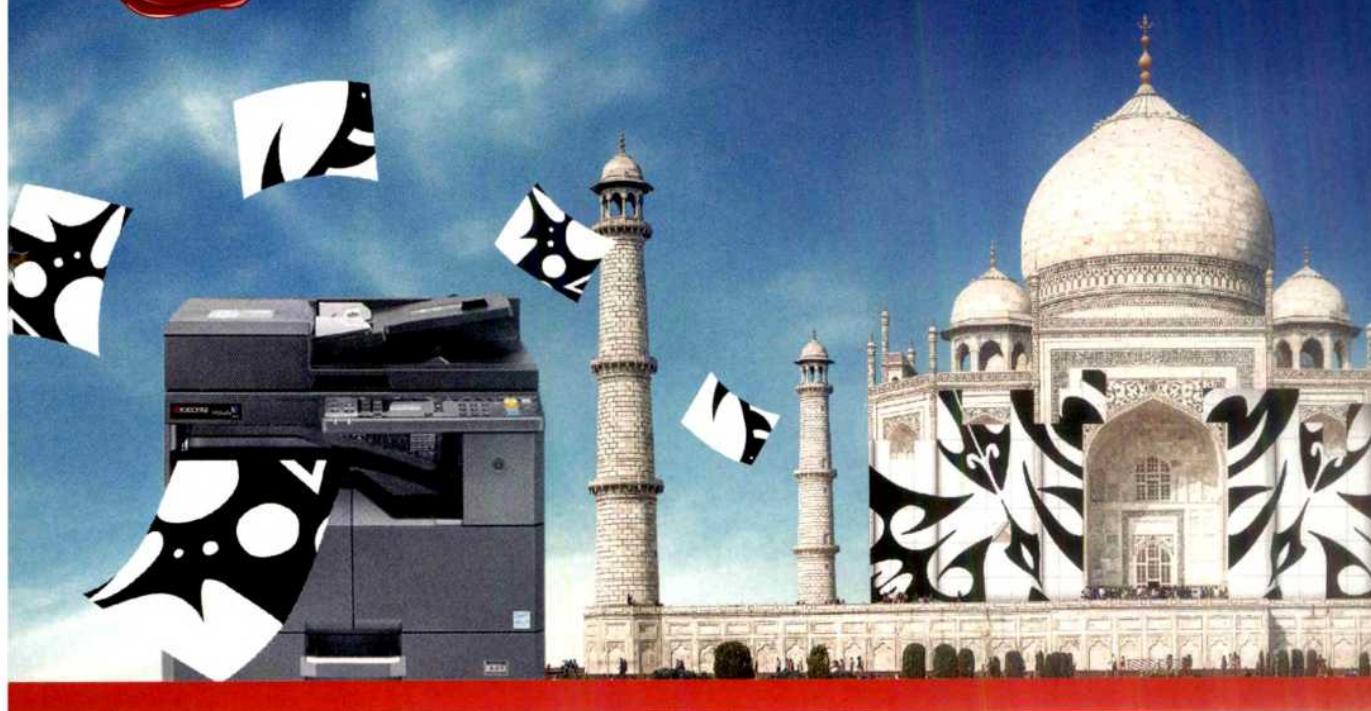
VIVEK PARANJPE/ HR Consultant

success – but there is a correlation nonetheless because success is determined by strategies put in by managers.

Other companies are experimenting with various innovative strategies. For instance, Godrej has a Fellows' Programme to create future leaders, where it puts selected high-performing managers through various challenging tasks. Equally, to bring diversity into its ranks, the company tries to identify and encourage students with artistic talent and interest. Since 2012, Godrej has been running a contest called 'Live Out Ur Dream' or LOUD. Students from some top



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Young Executives

B-schools are invited to participate and explain their dream – which could range from an interest to paint to living in a village for 15 days and trying to change things to having their own talk show on football. A panel of Godrej's managers then selects a winner, and sponsors his 'dream'. The company doesn't make it conditional for the winners to join its workforce, though.

IT services major HCL has something called Ideastation that provides a platform for students in the US, the UK, and India to connect, blog, ask questions and engage with the company. The target audience for the US and UK are stu-



“YOUNG LEADERS ARE COMFORTABLE WITH WHO THEY ARE AND DO NOT IMITATE STEREOTYPES OF LEADERSHIP THEY REPRESENT BOTH HOPE AND FRESHNESS”

SANTRUPT B. MISRA / CEO/ Carbon Black Business & Director, Group HR, Aditya Birla

groom them for larger and more complex roles,” says Manish Pajan, Executive VP, DHR International. “Unfortunately, very few organisations have robust processes in place to nurture such high-potential leaders. There needs to be a systematic approach rather than it being left to chance and to individual brilliance.”

This is becoming increasingly important because, as K. Sudarshan, Regional Managing Partner-Asia, EMA Partners International, says, India's Inc.'s leadership profile

is set to witness a generational churn in the next five years. “You will see younger leaders at the helm while those in the old set will slowly fade out,” he says. This is visible in the way all new segments within established groups are reaching out to young leaders. It also underlines why we per-



“LEADERS WHO NURTURE INNOVATION, LEVERAGE TECHNOLOGY, SCALE BUSINESS RESPONSIBLY... AND SET NEW MARKET AGENDA ARE RARE”

K. RAMKUMAR / Executive Director/ ICICI Bank

dents from engineering colleges and B-schools, and the target audience for India is B-school students. At Ideathon, HCL presents live business cases to students for them to offer solutions. Of course, there are companies such as PepsiCo India and Bharti Airtel and others that also have exercises aimed at spotting talent.

Not all companies are placing such importance to developing young talent. “The key question is whether they are able to identify them, and once they are, what specific career enhancing opportunities they provide to

sist with our passion for showcasing India's Hottest Young Executives. It is a listing that you can refer back to in the coming years – for perspective. We are helped in this initiative by our knowledge partners and an eminent jury (see *How We Did It*). As Rekha J. Koshy, Partner at Accord Group, points out: “Talent will continue to be almost the sole defining factor for firms in years ahead.” To know more about the winners this year, turn the page. ♦

@ShamniPande

THE TRAILBLAZERS: Hottest Young Executives since 2007 who have gone places

	THEN	NOW
Rajiv Mehta	CEO, Puma Asia in 2014	CEO Arvind SportLifestyle
Rishi Vasudev	COO, Tailored & Sports Brands, Arvind Brands in 2014	VP, Fashion Retail, Flipkart
Madhu Kannan	CEO, BSE, in 2011	Head, Business Development, Tata Group
Vaishali Kasture	MD, India Butterfield Fulcrum, in 2010	MD, Goldman Sachs
Vivek Pandit	Partner, McKinsey & Co., in 2010	Director, McKinsey
Vivek Gambhir	Partner, Bain India, in 2009	Managing Director, Godrej Consumer Products
Saugata Gupta	CEO, Consumer Products, Marico, in 2008	MD & CEO, Marico
Leena Nair	Executive Director-HR, HUL, in 2008	Senior VP for Leadership and Organisation Development, Unilever
Sameer Suneja	CEO, Perfetti Van Melle India, in 2008	Global CEO for Perfetti Van Melle
Anurag Behar	MD, Wipro Infrastructure Engineering, in 2007	Chief Sustainability Officer of Wipro, CEO of Azim Premji Foundation & Vice Chancellor, Azim Premji University

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Picture Perfect

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he is a key member of the team that has delivered a string of memorable films in the past decade – among others, *Swades*, *Rang De Basanti*, *Raajneeti*, *Kaminey*, *Barfi*, *Kai Po Che*, *2 States*, *Chennai Express*, *Haider* and *PK*. Amrita Pandey, Vice President and Head, Marketing and Distribution, Studios, Disney India, says the movie business calls for varied skills. “You need to display a range,” she says. “With business people, you have to be in business mode, but with creative people, it is a different mode. It is very satisfying. I think that is where my passion for this business comes from.”

After a brief stint with an education portal after she graduated from a Mumbai college, Pandey completed a course in marketing management from The Sydenham Institute and joined UTV from campus in 2003. (UTV was taken over by The Walt Disney Co in 2012.) She began with television, part of the team responsible for international content acquisition and launch marketing of the UTV’s children’s channel, Hungama TV, moving on to movie distribution with Ashutosh Gowariker’s *Swades*, the first movie that UTV produced, in 2004. Her mentors were UTV’s erstwhile boss Ronnie Screwvala and current Disney India Managing Director Siddharth Roy Kapur. Screwvala says she is a “proactive, multi-tasker and solution oriented” person.

Pandey says research is the key to making successful films. “There must be research into the changing tastes of audiences and the avenues for reaching out to the right targets,” she says. “Research does not give definite answers but it does provide data, patterns and trends from which you extrapolate to decide what you want to do.” At a personal level, she believes in sticking to what she thinks right, even if it takes a toll on popularity. “You’ve got to be consistent,” she adds. ♦

ARPITA MUKHERJEE



RACHIT GOSWAMI



AMRITA PANDEY

VP and Head, Marketing and Distribution, Studios, Disney India

AGE: 35

GOAL IN LIFE: No set goals, feels she has a lot to accomplish in her current role.

BEST LEADERSHIP LESSON: You have got to take hard calls, and you have got to do what you got to do. You need to jump out of failures fast.



SHEKHAR GHOSH

Great Book Value

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ith 85,000 copies sold so far in a country where 5,000 is the norm for non-fiction books in English, *The Accidental Prime Minister* by Sanjaya Baru was a publishing phenomenon in 2014. But the insider account of former prime minister Manmohan Singh's government would never have come into being had it not been for

Chiki Sarkar, who approached Baru – press advisor to Singh for part of his term – to write it. “2014 was a high base year and improving on it will be a challenge,” she says.

Sarkar is the daughter of Ananda Bazaar Patrika Group owner Aweek Sarkar but has carved out an identity of her own in a different business. Starting her career in London with Bloomsbury Publishing where she worked for seven years, she moved to Delhi in 2006 to join Random House. She took over at Penguin Books India in 2011. After global publishers Penguin Books and Random House merged, in 2013, she was made the India head of the combined entity. Penguin has published a roll call of India's top writers in English, including Arundhati Roy and Vikram Seth. “Sarkar is focused and never bypasses team members,” says Devdutt Pattanaik, author and Chief Belief Officer, Future Group. “She reminds you why Penguin/Random House is the place to be.” ♦

AJAY MODI

CHIKI SARKAR

Publisher,
Penguin Random House
India (PRHI)
AGE: 37

GOAL IN LIFE: To publish great books and sell the hell out of them.

BEST LEADERSHIP LESSON: Publishing is all about your writers, being a publisher means you have to learn to take your books out into the world.



RACHIT GOSWAMI

GAURAV BANERJEE

GM, Star Plus

AGE: 38

GOAL IN LIFE: To enable novel and impactful story-telling.**BEST LEADERSHIP LESSON:** The job of a leader is to enable conditions for teams to take risks and create a strategy that supports risks.

Eye on Storytelling

As a TV journalist, first with Aaj Tak and then with Star News (now ABP News), Gaurav Banerjee says story-telling came to him naturally. "Every story needs to have a structure. Every story can become big if it is told in the right context," he says.

He was roped in by his mentor, Uday Shankar (CEO of Star India), in 2008 to kick-off Star India's regional news channel business. He went on to set up the Bengali news channel, Star Ananda. When Shankar offered him the role of putting together the content strategy of the network's Bengali entertainment channel, Jalsha, Banerjee says he was initially intimidated. "But I soon found myself enjoying working with writers and creating and shaping stories."

His stint with Star Plus began in late 2009, when the channel had lost its leadership position to Colors. He framed the content strategy of Star Plus and took Star Plus from 225 Gross Rating Points to 400 GRPs in six months. Ekta Kapoor, Joint Managing Director, Balaji Telefilms, says Banerjee has the ability to extract the best out of his creative partners. "My best show till date is *Yeh Hai Mohabbatein*. I had the script with me for a long time and when Gaurav heard it, he at once said he wanted to do the show," she says. The show today is Star Plus's top-rated show. ♦

AJITA SHASHIDHAR

Her Word Is Law



he is a virtuoso of the fine print that goes into corporate legal documents.

Gunjan Shah, Partner at law firm Amarchand & Mangaldas & Suresh A. Shroff & Co, is a whiz at mergers and acquisitions, private equity investment, corporate restructuring, securities and takeover regulations, debt restructuring and debt capital markets and, most of all, complex cross-border deals. Global PE heavyweights routinely turn to her while making investments in India. In 2012/13, she was ChrysCapital's Indian legal counsel as it invested in AU Financiers, Eris Lifesciences, KPIT Cummins Infosystems and Mankind Pharma. In 2013, she handled Apollo Global's \$350 million investment in steel pipes maker Welspun Corp and the group company Welspun Maxsteel. Last year, she oversaw AION Investments Singapore and Apollo Asia Pvt. Credit Master Fund's \$1.5-billion investment in Avantha Holdings' debentures.

Shah studied at National Law School of India, Bangalore, after which, in 1998, she joined Amarchand & Mangaldas as Partner. "Cross-border transactions are relatively new in India and it is the fresh approach to manage legal risks in these

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VIVAN MEHRA

GUNJAN SHAH

Partner, Amarchand Mangaldas
AGE: 39

GOAL IN LIFE: Wants to take part in the development of law and policy in India.

BEST LEADERSHIP LESSON: When your team members are working round-the-clock, you need to be in the trenches with them too.

that provide me a lot of satisfaction," she says. She credits Shardul Shroff, the driving force behind Amarchand & Mangaldas, for much of her success. "Shah has evolved into an astute and commercially sound lawyer," says Pallavi Shroff, Senior Partner at the law firm and Shardul's wife. Apart from her legal accomplishments, Shah is also a trained Odissi dancer. ♦

SARIKA MALHOTRA

A Wealth of Experience

If one flight does not take off, another surely will – and it might even take you to a better destination. That certainly happened to Karan Bhagat's career flight path. In 2001, after graduating from IIM Bangalore, he got an offer from Cluster Consulting in Barcelona. But the offer was cancelled following the dotcom crash. Bhagat calls it a 'fortunate' moment as his entrepreneurial aspirations bloomed from then on.

Bhagat, who hails from a Marwari business family of Kolkata, had started a travel agency in 1996 before joining IIM, but that did not work out. When Barcelona did not happen, he taught English and Math for a while. Then, he joined Kotak Mahindra Bank, and rose to head the bank's wealth management practice for Mumbai. But the itch to do something of his own never died. Urged by his wife, Shilpa, who was working with HDFC, he quit in December 2007, and approached Nirmal Jain, Chairman of IIFL, to start a venture.

In April 2008, Bhagat along with his friends Yatin Shah and Amit Shah were given the responsibility of setting up IIFL Wealth as a unit of IIFL Holdings. The company now manages assets worth ₹66,000 crore. It reported ₹242 crore as annual revenue and ₹74 crore as profit before tax in 2013/14. No doubt, Jain is delighted. "I never set revenue or profit targets for Karan, but growth has been phenomenal because of mutual trust, vision and Karan's ability," he says. ♦

NEVIN JOHN

KARAN BHAGAT

MD & CEO,
IIFL Wealth
Management
AGE: 36

GOAL IN LIFE: To continue with the successful entrepreneurial journey and continue to innovate.

BEST LEADERSHIP LESSON: Be honest, be grounded and stay focused. Times may be bad but if you do not lose focus, you will be back in the game.



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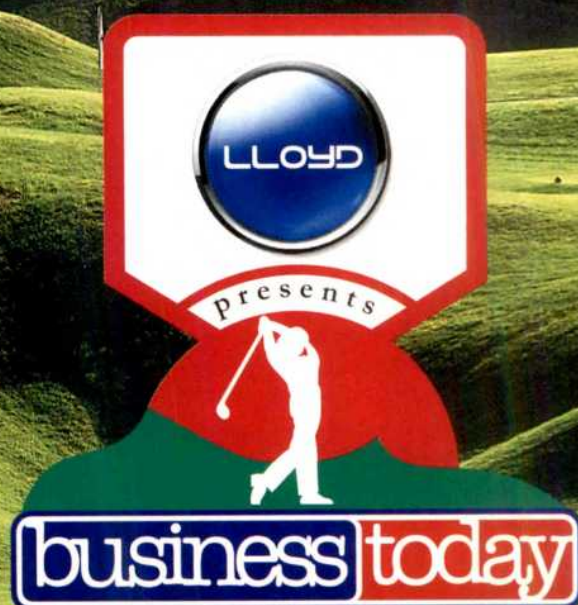
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How many people in the world would take time off work and go backpacking to a country just to see the operations of a company? Manu Kumar Jain did just that in October 2013. He was curious to see how Chinese handset maker Xiaomi's dramatically different online-only sales model worked and went all the way to meet the Xiaomi team in Beijing, after exchanging a few calls with Bin Lin, Co-founder and President of the company. The reward: when Xiaomi launched in India in July 2014, it looked no further than Jain to head its country operations.

Within six months of its launch, Xiaomi had sold over a million phones through flash sales on Flipkart.com. Jain and his 19-member team in Bangalore created so much buzz around the snazzy phones that potential buyers would log in hours before the sale opened.

Meerut-born Jain graduated from IIT Delhi and IIM Calcutta but his career path was far from conventional. From working for a company that created software for investment banks, to McKinsey in Zambia, and then co-founding online retailer Jabong, Jain took several risks. At Xiaomi, Jain wants to continue like a start-up and aims to scale his team up to 50 members by the first anniversary. Myshkin Ingawale, Chief of Staff, India, Xiaomi Technology, says Manu is a "detail-oriented person, who is focused on creating a culture based on performance over hierarchy".

An early bird, Jain starts his day at 5 a.m. He likes to wind down early, too, making sure he reaches home so that he gets to spend some time with his one-year-old kid. An avid Iron Man fan, he loves to read, but on weekends he and his wife make it a point to meet someone new or someone they haven't met in a long time. ♦

NIDHI SINGAL



NILOTTAL BARUAH

MANU KUMAR JAIN

India Head, Xiaomi

AGE: 34

GOAL IN LIFE: Wants to do something different, something that would impact a large number of people.

BEST LEADERSHIP LESSON: Make sure that everyone who is in a leadership role should try to groom others. Have an honest discussion with everyone.



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What the Doctor Ordered

Swiss pharmaceutical giant Novartis has the lowest attrition rate among multinational drug companies in India, despite its problems over patent protection of its anti-cancer drug Glivec and a proposed reorganisation of some businesses as part of a global plan. Much of the credit for this should go to Meenakshi Priyam, Human Resources Head of Novartis India, for her untiring effort to keep employee morale high. She has also worked hard at infusing talent into the company and building capabilities. "My biggest challenge is continuing the accelerated growth agenda of the company with key focus on the patients we serve," she says.

A trained classical singer who also loves reading, movies and travel, Priyam got her MBA from XLRI, Jamshedpur, specialising in human resources, after graduating in chemistry from a Patna college. After a short stint in the banking sector – with Axis Bank and YES Bank – she worked with global healthcare major Johnson & Johnson from July 2006 to September 2013 before moving to Novartis. She thanks her family for their role in her success.

"When my daughter was just one year old, I was offered the position of Asia Pacific Regional Head, HR at J&J, which involved travelling two weeks in a month to 14 different countries," she says. "I was not sure whether to accept, but my husband and in-laws encouraged me to and supported me during that period."

Priyam says her "love for challenges, a childlike enthusiasm towards learning and a purpose of making a difference" drives her. Her colleagues vouch for her, too. "Priyam has this ability to deal with people issues holistically and find solutions that are practical and in the best interest of all stakeholders," says Ranjit Shahani, Vice Chairman and Managing Director, Novartis India. ♦

P.B. JAYAKUMAR

MEENAKSHI PRIYAM
Head-HR, Novartis India
AGE: 36

GOAL IN LIFE: Lead a meaningful life with a purpose of positively impacting organisations that she works for and people that she interacts with.

BEST LEADERSHIP LESSON: Connecting to people's minds can have an impact.





RACHIT GOSWAMI

The 'Get Things Done' Specialist

When Nikhil Shah joined Alvarez and Marsal (A&M), a business advisory firm, around five years ago, the firm had just six professionals in India. A strong brand globally, it was an unknown entity in India. But today, the firm has emerged as a preferred advisor to banks, private equity firms and large companies, and the staff strength has grown to 75. Shah has played no small part in this growth story.

One of his first tasks was from State Bank of India (SBI) to restructure an IT services provider in Ahmedabad. The company had a

NIKHIL SHAH

MD, Alvarez & Marsal

AGE: 36

GOAL IN LIFE: Grow A&M in India. The long-term goal is to make a positive difference to society and contribute to better business practices.

BEST LEADERSHIP LESSON: Persistence works.

₹1,000-crore exposure to a group of lenders led by SBI. The turnaround of the firm helped A&M gain a foothold in India. He also advised Jet Airways on optimising costs and improving efficiency and cash flow. He served as the interim chief restructuring officer of Bharati Shipyard, improving its operating cash flow and order book. Besides, he handled the \$1.4-billion carve out and post-merger integration of the hardware and home improvement divisions of Stanley Black and Decker. From being the interim CEO of a transportation company to interim CFO of worsted wool maker OCM India, he has played diverse roles at A&M. Sankar Krishnan, MD and Co-head of A&M India, says Shah has a great understanding of challenges that businesses face in India. Maintaining the quality of work and keeping core values intact while expanding the team are going to be the main challenges for Shah. "Given the weak corporate governance within stressed companies in India, it is important to ensure that the management and board lead by example," he adds. ♦

NEVIN JOHN

Swimming in Exciting Waters

In January, Pulkit Trivedi took charge of Google's buzziest vertical

in India – e-commerce. In 2014, goods and services worth \$4 billion changed hands online in India and this is projected to touch \$6 billion this year and rise to \$50 billion by 2020. Google has a big part to play as host of the Great Online Shopping Festival where cars, diamonds and even homes get sold.

Trivedi, who joined Google in April 2012, is tasked with driving online sales higher. In his earlier role as Head of Technology at Google, he gained experience in shaping attitudes towards digital. "There has been significant shift in terms of how tech brands started seeing digital shaping their business growth," he says.

Trivedi's first big break came in 2003 at IBM where he was given charge of a multi-million-dollar project. At Intel, where he joined in 2005, after a one-year stint at Microsoft, Trivedi drove several initiatives around computer literacy and was nominated to manage the emerging talent and leadership initiative in 2011. An avid swimmer, Trivedi describes how at Intel he tried to launch a 'made for India' product. "I believed it could change the way the country would adapt



SHEKHAR GHOSH

PULKIT TRIVEDI

Head, E-commerce Vertical,
Google India
AGE: 39

GOAL IN LIFE: To be a part of transforming education in India.

BEST LEADERSHIP LESSON: Leaders produce leaders. The ability to build high-performance teams is the true testimony of strong leaders.

to computing. But this failed," he says. "My biggest learning was how execution and speed-to-market holds the key in such initiatives."

Trivedi also taught consumer behaviour at IIT Roorkee for four years. "Pulkit brings passion, clarity of thought and phenomenal interpersonal skills to the table," says Professor Vinay Kumar Nangia, former Dean of IIT Roorkee who had spotted him at a conference. "His connection with the students was unique." ♦

SHAMNI PANDE

Legal Eagle

R

ohit Kumar admires Charles Thomas Munger, Vice Chairman of

Berkshire

Hathaway Corporation, more than the company's billionaire CEO and legendary investor Warren Buffett. One reason is Munger's legal background. The second is that Kumar – inspired by Munger, who feels that while working with a law firm, you don't control your time, but the clients do – built a career as a corporate lawyer at United Phosphorus. Kumar's other role model is Benjamin Franklin, one of the founding fathers of the US. Kumar feels Franklin lived a contented life and was useful to the people around him.

An avid reader and a nature lover, Kumar opted for the legal career as a natural choice since his father, Rabindra Prasad, practices at the Patna High Court. After graduating from Symbiosis Law School in Pune in 2002, Kumar took up his first job in Jaipur to get experience of the court room. Soon, however, his boss told him to join academics saying he was not good enough to be a lawyer.

He took it with a pinch of salt. Shortly thereafter, in 2004, he found a job in

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ROHIT KUMAR
General Counsel,
United Phosphorus
AGE: 36

GOAL IN LIFE: Lead a meaningful life with a purpose of positively impacting organisations I work for and people I interact with.

BEST LEADERSHIP LESSON: Set goals in life and work hard to achieve them.

Delhi with J. Sagar Associates where he was mentored by the law firm's founder Jyoti Sagar. After two and a half years, Kumar scouted for jobs outside India. In one of his backpacking trips to Australia, he found a job at law firm Herbert Smith Freehills in Sydney. While working with Freehills, Kumar had been selected for Asialink Leaders Program 2009 by the University of Melbourne. Kumar says he learned the importance of understanding the commercial aspects and processes during his stint at Freehill. "Their emphasis on perfection and time utilisation are the other lessons I learnt."

Kumar says his varied experience has helped him standardise the processes at United Phosphorus where he will complete five years in July. R.D. Shroff, Chairman, Managing Director, and Rajen Darak, Group CFO are his mentors at United Phosphorus. "An in-house job is different from firms. Here the scope for engagement with legal subjects is broader," says Kumar, who votes most of his time outside to his family that includes Neha and their 15-month daughter, Milonee. ♦

RACHIT GOSWAMI

Banking on Talent



When Satheesh Krishnamurthy was asked by an interviewer at Citibank why he should be hired, he replied: "Anyone who has hired me has gone on to become a CEO." Krishnamurthy was not joking. He cited the example of the Nestle executive who had picked him up for summer training and had later become the CEO for West Asia at the Swiss food company. Krishnamurthy, of course, got the Citibank job. And within a month, Deepak Chandani, one of those who

had interviewed him at Citibank, left CEO of Yahoo India. Praveen Kutty viewed him at Citibank, still reminding Krishnamurthy the story whenever is now the retail banking head of lender Development Credit Bank. Krishnamurthy honed his skills in 2006, he became the southern credit cards. During this tenure, the southern region's average spe-

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RACHIT GOSWAMI

**SATHEESH
KRISHNAMURTHY**

Senior Vice President
and Head - Affluent
Business, Axis Bank

AGE: 37

GOAL IN LIFE:
Constantly innovate
and leave my
footprint. I like
bigger challenges.

BEST LEADERSHIP
LESSON: A true leader
is someone who
drives his followers.

than twice the industry average. This outstanding performance made him stand out, and two years later he was selected as one of 10 executives from 100 countries to work in Citigroup's New York headquarters as part of a global talent development programme. A year later, he was made sales and distribution director for credit cards at Citibank, a position he retained for close to three years. The next break in Citi came when he was made Senior Vice President of a team that handled clients with net worth between \$5 million and \$25 million.

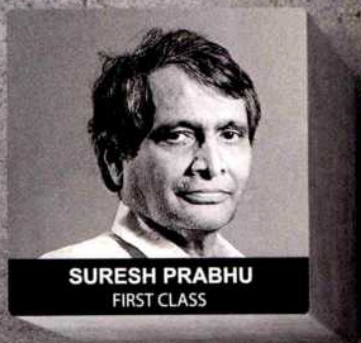
What brought him to Axis Bank? "The huge opportunity in the affluent segment and a bank with

much larger footprint to exploit it," he says. Krishnamurthy says the bank has come out with many new products and services for wealthy clients. He is also strengthening the network of relationship managers. "We have a few hundred relationship managers and we would like to double their number. There is a 70 per cent jump in productivity of relationship managers. Revenue is growing 35 per cent for this segment," he says. Axis's affluent segment manages assets worth around \$5 billion, and Krishnamurthy aims to grow them further. "You need divine blessing in every pursuit," he says. ♦

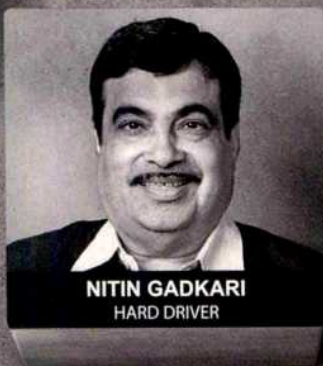
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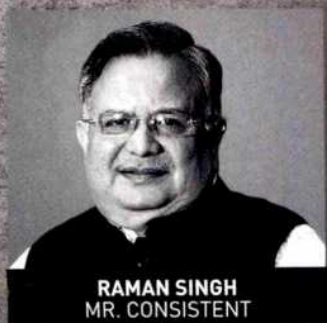
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FIRST CLASS



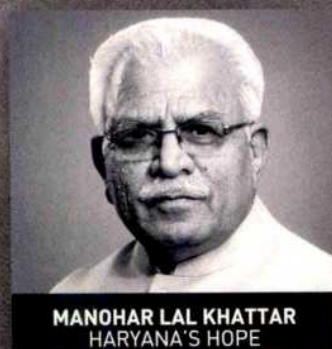
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Fastrack Fireball

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hen Simeran Bhasin took charge of watch maker Titan's Fastrack brand in 2005, it had a turnover of ₹25 crore. It sold only watches, but she expanded the division to include bags, belts, wallets and sunglasses as well. By 2013, Fastrack's turnover had surged to ₹800 crore.

Yet she threw it all up that year to join Wildcraft, a Bangalore-based maker of outdoor gear – rucksacks, sleeping bags, etc – as its marketing head. Confined to South India for the first decade since it began in 1998, Wildcraft has lately acquired a national footprint and is even eyeing global markets. Still, with a turnover of ₹250 crore, it is way smaller than Titan. Why did she make a move that appears as a career comedown? "I need fresh challenges or else I get bored," she says. "Fastrack was my baby as much as my daughter is. But when I met the founders of Wildcraft, something clicked. I identified with their values and ethics. I also wanted to see if I could grow something without the backing of the likes of Titan and Tatas," says Bhasin, who credits her parents for her adventurous spirit.

Bhasin joined Titan after completing her MBA from T.A. Pai Management Institute Manipal. "She has a sharp, uncluttered and incisive mind," says Ronnie Talati, Senior VP and Chief Marketing Officer, Watches and Accessories, Titan, whom Bhasin calls her mentor. Wildcraft happened next. She has moved the company into two new segments – clothing and footwear for outdoor enthusiasts – and is considering more. "I'm focused on making Wildcraft the outdoor gear of choice from head to toe," she says. ♦

VENKATESHA BABU

NILETPAL BARUAH

SIMERAN BHASIN

CMD, Wildcraft

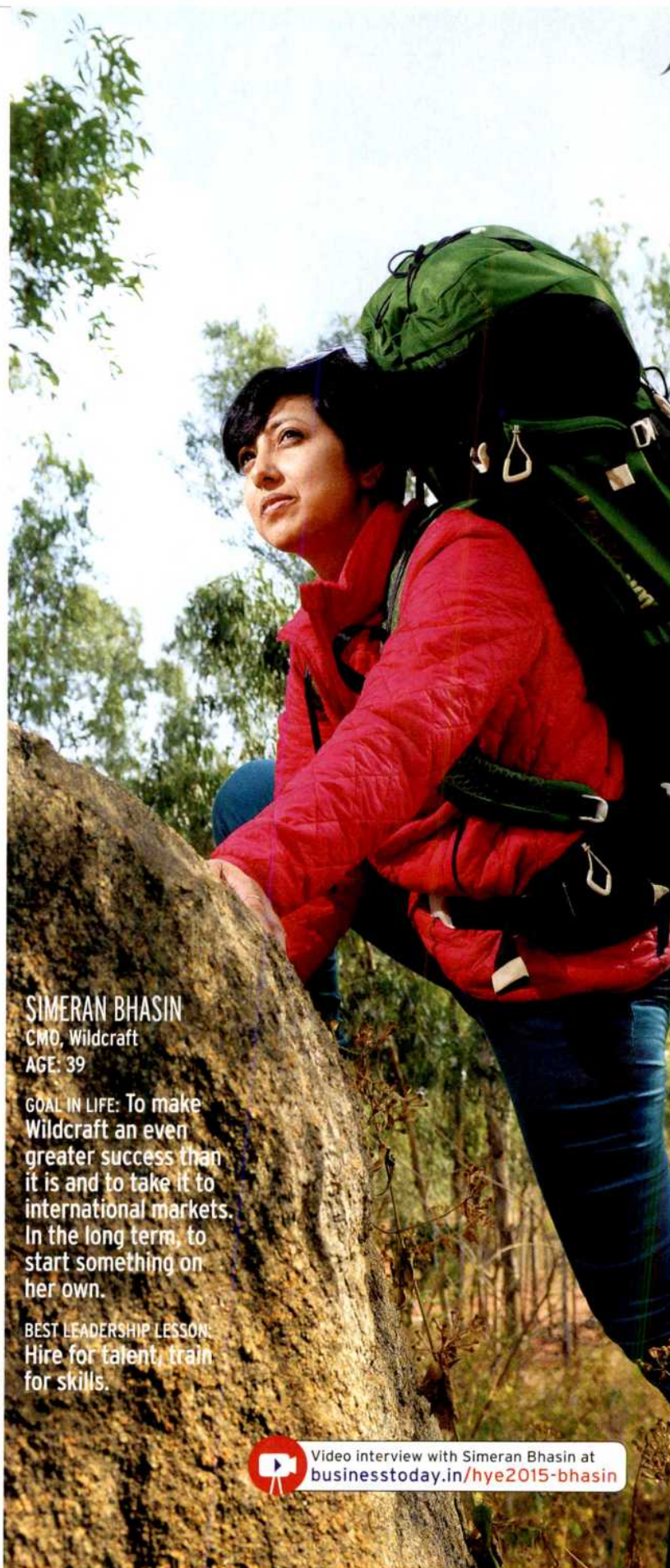
AGE: 39

GOAL IN LIFE: To make Wildcraft an even greater success than it is and to take it to international markets. In the long term, to start something on her own.

BEST LEADERSHIP LESSON: Hire for talent, train for skills.



Video interview with Simeran Bhasin at businesstoday.in/hye2015-bhasin



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VANI GUPTA DANDIA
Director, Marketing, Kurkure
Master Brand, PepsiCo India
AGE: 39

GOAL IN LIFE: Helping her team realise its highest potential through encouragement and skill development.

BEST LEADERSHIP LESSON: Adapt to change – life hardly ever goes as expected. There is no time to brood over what could have been better.

VIVAN MEHRA

The Powerpuff Girl

A desi twist has spiced up PepsiCo's snacks portfolio with the India-innovated Kurkure emerging as a ₹1,000-crore brand. And leading the brand is Vani Gupta Dandia. "Emotionally connected brands win at the end," says Gupta, who led the brand's expansion into puffed snacks. "What also worked for us is the large bag-size impression, more volume in the bag and exciting flavours."

Gupta joined PepsiCo in January 2011 as the head of new business development for the food category from consumer goods company Unilever. At PepsiCo, she has led the development and launch of flavoured oats. Under her charge, Kurkure's portfolio has grown from traditional namkeens to quirky fusion formats with products like Monster Paws and Naughty Tomato. Kurkure also revamped its creative strategy in late 2012. "The quin-

tesential Indian housewife, for the first time, poked fun at her family in the Kurkure positioning where she celebrated imperfection," says Gupta, who works closely with the brand's creative agency, JWT.

Gupta, who calls herself a proud single mother and a confident traveller, has created categories that resonate with women. For instance, as a Senior Global Project Leader, she launched hair-care products for coloured hair under the Sunsilk brand that was identified as the most high priority project across the globe on Sunsilk. Passionate about theatre, painting and sculpting, Gupta is admired in her professional network. "She has an exceptional sense of professionalism, and always encourages the agency partners to express themselves better," says Babita Baruah, Executive Business Director, JWT. ♦

ARUNIMA MISHRA



Video interview with Smriti Krishna Singh at
business today.in/hye2015-krishnasingh



RACHIT GOSWAMI

SMRITI KRISHNA SINGH

EVP and Head-HR,
Multi Screen Media,
Sony Entertainment TV
AGE: 39

GOAL IN LIFE: Continue
building on the culture
of the organisation.

BEST LEADERSHIP LESSON:
Prioritise and get the
more important things
done perfectly.

At Her Aggressive Best

No was not a part of Smriti Krishna Singh's vocabulary. Singh has always donned her positive attitude to work, and at every turn in her career. "I chose my stints in such a way that the roles I was offered were different from all my previous ones," she says. In her 16-year career, Singh has worked across verticals such as HR business leadership, acquisition integration, staffing and corporate leadership development. During her 11 years with General Electric, she not only steered the HR integration of GE Healthcare's Asia Pacific business with a newly acquired entity in 2004 while she was based in Tokyo, but also helped GE Corporate save \$1 million by improving productivity in just six months. "At GE, in every job I was thrown in at the deep end in a swim-or-sink situation," says Singh. In her present role, Singh is driving a values-based organisational culture through programmes on innovation, engagement, talent and leadership development. According to an Aon Hewitt 2014 report, Multi Screen Media's (MSM) staff engagement stood at 80 per cent under her leadership, significantly higher than the average for media companies globally. Man Jit Singh, who was earlier MSM CEO and is now President of Sony Pictures Home Entertainment in Los Angeles, notes that she is relentless in getting things done. "She is very driven and focused," he says. ♦

ARPITA MUKHERJEE



SURAJ BAHIRWANI
COO, Hypermarkets,
Aditya Birla Retail
AGE: 36

GOAL IN LIFE: Retire from Aditya Birla group as a business director. And, become a good husband and father.

BEST LEADERSHIP LESSON: Listen to everyone.

RACHIT GOSWAMI

Staying Put

Suraj Bahirwani joined the Aditya Birla group in 2002, after completing his management studies and PhD, and has stayed there ever since. This stickiness has precedence. His family, originally from the Sindh province in Pakistan, had migrated to Hyderabad at the time of Partition. The family members prospered in the real estate business in the south Indian city, but have never spread out.

Bahirwani started his career as executive assistant to Aditya Birla Group Chairman Kumar Mangalam Birla, who mentored him for four years. He worked with varied businesses including mining, chemicals and fertilisers before moving to retail. "Since I was part of varied operations, I never felt work fatigue," he says. He worked in the food and grocery business since its inception and was also part of the team that handled the acquisition of supermarket chain Trinethra in 2006. One of his personal achievements is the turning around of the retail business in coastal Andhra, he says.

Bahirwani climbed up the corporate ladder quickly and was appointed as the COO of the group's hypermarkets in January 2014. He spearheaded the launch of 14 out of 16 of the company's hypermarkets in the country. He travels three to four days in a week, meeting employees and consumers to understand how the business is changing. Bahirwani, who is married with a six-year-old daughter, is busy even on weekends when the stores get higher footfalls. "Working in organised retail is a different experience," he says. "The business is still at a nascent stage in the country. We do test various models to stay put." ♦

NEVIN JOHN



**Positive Results.
Positive Growth.
Positive Future.**



PART-I

STATEMENT OF UNAUDITED FINANCIAL RESULTS FOR THE QUARTER ENDED 31/12/2014 (Rs. in crores)						
Particulars	Unaudited Three months ended			Unaudited Nine months ended		Audited Year to date
	31-Dec-14	30-Sep-14	31-Dec-13	31-Dec-14	31-Dec-13	31-Mar-14
1. Income from operations						
(a) Net Sales/income from operations (net of excise duty)	2,944.39	3,102.24	2,821.53	9,521.13	8,168.77	12,052.29
(b) Other operating income	1.66	2.81	1.64	6.70	4.94	5.91
Total Income from operations (net)	2,946.05	3,105.05	2,823.17	9,527.83	8,173.71	12,058.20
2. Expenses						
(a) Consumption of raw materials	7.44	7.91	8.78	21.50	20.65	26.50
(b) Consumption of stores & spares	77.51	65.12	83.28	198.92	207.43	346.31
(c) Changes in inventories of finished goods and work-in-progress	(183.19)	50.42	(5.82)	(82.38)	66.05	(14.27)
(d) Employee Benefit expense	180.98	198.26	157.35	560.04	450.35	706.20
(e) Royalty & Cess	460.49	269.68	225.55	1,001.66	631.56	960.43
(f) Selling Exps incl. Freight out	240.56	309.40	243.17	880.92	900.68	1,347.41
(g) Depreciation and Amortisation	53.26	40.92	36.17	134.20	107.31	150.41
(h) Other Expenses	214.06	198.23	208.05	590.82	595.24	914.16
Total expenses	1,051.11	1,139.94	956.53	3,305.68	2,979.27	4,437.15
3. Profit from operations before other income, finance cost & exceptional items (1-2)	1,894.94	1,965.11	1,866.64	6,222.15	5,194.44	7,621.05
4. Other income	525.14	526.84	507.70	1,539.21	1,566.98	2,094.52
5. Profit from ordinary activities before finance costs and exceptional items (3+4)	2,420.08	2,491.95	2,374.34	7,761.36	6,761.42	9,715.57
6. Finance cost	-	-	-	-	-	1.85
7. Profit from ordinary activities after finance costs but before exceptional items (5-6)	2,420.08	2,491.95	2,374.34	7,761.36	6,761.42	9,713.72
8. Exceptional items	0.00	112.19	-	57.60	-	(45.48)
9. Profit from ordinary activities before Tax (7-8)	2,420.08	2,379.76	2,374.34	7,761.36	6,761.42	9,759.20
10. Tax expense	827.07	813.01	807.04	2,628.99	2,303.48	3,339.12
11. Net Profit from ordinary activities after tax (9-10)	1,593.01	1,566.75	1,567.30	5,074.77	4,457.94	6,420.08
12. Extraordinary items (net of tax expense)	-	-	-	-	-	-
13. Net Profit for the period (11-12)	1,593.01	1,566.75	1,567.30	5,074.77	4,457.94	6,420.08
14. Paid-up Equity Share Capital	396.47	396.47	396.47	396.47	396.47	396.47
15. Face value per share	Re. 1/-	Re. 1/-	Re. 1/-	Re. 1/-	Re. 1/-	Re. 1/-
16. i & ii EPS for the period (Rs.)-Basic and diluted before and after extraordinary items	4.02	3.95	3.95	12.80	11.24	16.19

PART-II

SELECT INFORMATION FOR THE QUARTER ENDED 31/12/2014						
Particulars	Unaudited Three months ended			Unaudited Nine months ended		Audited Year to date
	31-Dec-14	30-Sep-14	31-Dec-13	31-Dec-14	31-Dec-13	31-Mar-14
A. PARTICULARS OF SHAREHOLDING						
1. Public share holding	792,769,700	792,769,700	792,769,420	792,769,700	792,769,420	792,769,700
- Number of Shares	20	20	20	20	20	20
- Percentage of shareholding	-	-	-	-	-	-
2. Promoters and Promoter group shareholding						
a) Pledged/Encumbered	-	0	0	0	0	0
- Number of Shares	-	0	0	0	0	0
- Percentage of shares (as a % of the total shareholding of promoter and promoter group)	-	0	0	0	0	0
- Percentage of shares (as a % of the total share capital of the company)	-	0	0	0	0	0
b) Non Encumbered	3,171,946,300	3,171,946,300	3,171,946,580	3,171,946,300	3,171,946,580	3,171,946,300
- Number of Shares	100	100	100	100	100	100
- Percentage of shares (as a % of the total shareholding of promoter and promoter group)	80	80	80	80	80	80
- Percentage of shares (as a % of the total share capital of the company)	80	80	80	80	80	80
Particulars	Three months ended 31-Dec-2014					
B. INVESTOR COMPLAINTS						
Pending at the beginning of the quarter				NIL		
Received during the quarter				27		
Disposed of during the quarter				27		
Remaining unresolved at the end of the quarter				NIL		



Segment wise Revenue, Results and Capital Employed under Clause 41 of the Listing Agreement
(Rs. in crores)

Particulars	Unaudited Three months ended			Unaudited Nine months ended		Audited Year to date
	31-Dec-14	30-Sep-14	31-Dec-13	31-Dec-14	31-Dec-13	31-Mar-14
1. Segment Revenue						
(net sale/income from each segment)						
a) Iron Ore	2,907.79	3,059.21	2,796.98	9,406.73	8,086.01	11,925.79
b) Other Minerals & Services	41.07	45.84	35.95	124.38	107.61	158.68
Total	2,948.86	3,105.05	2,832.93	9,531.11	8,193.62	12,084.47
Less: Inter segment revenue	2.81	0.00	9.76	3.28	19.91	26.27
Net sales / income from operations	2,946.05	3,105.05	2,823.17	9,527.83	8,173.71	12,058.20
2. Segment Results						
(profit (+) / loss (-) before tax and interest from each segment)						
a) Iron Ore	1,935.12	1,996.81	1,949.24	6,334.11	5,400.03	7,910.81
b) Other Minerals & Services	7.32	(10.00)	(2.99)	(2.99)	(8.28)	37.99
Total	1,942.44	1,986.81	1,946.25	6,331.12	5,391.75	7,948.80
i) Less: Interest	-	-	-	-	-	(1.85)
ii) Add: Other unallocable income net off unallocable expenditure	477.64	392.95	428.09	1,372.64	1,369.67	1,812.25
Total Profit before Tax	2,420.08	2,379.76	2,374.34	7,703.76	6,761.42	9,759.20
3. Capital Employed						
(Segment Assets-Segment Liabilities)						
a) Iron Ore	3,973.68	3,764.20	3,332.54	1,973.68	3,232.54	1,570.38
b) Other Minerals & Services	115.49	117.04	98.42	115.49	98.42	156.07
c) Other offices	29,627.88	29,674.20	27,350.21	29,627.88	27,350.21	26,363.73
Total	33,717.05	33,555.44	30,681.17	33,717.05	30,681.17	30,090.18

NOTES:

- The financial results have been reviewed and recommended by the Audit Committee at its meeting held on 05-Feb-2015 and approved by the Board of Directors at its meeting held on 06-Feb-2015.
- As prescribed by the new Companies Act, 2013, the company adopted Schedule II depreciation rates with effect from 01.04.2014 and its effect on the opening value of the asset to the extent of Rs. 13.65 cr has been adjusted against Reserves and Surplus and that of the current period amounting to Rs. 10.12 cr is charged to revenue.
- The details of exceptional items Rs 57.60 cr (net) are as under:
 - A defined Contribution Pension scheme for employees of the company, with effect from 1st Jan 2007, was introduced during the current period. The anticipated expenditure on this account pertaining to earlier period i.e. Jan'2007 to Mar'2014 of about Rs.112.19 cr is included in 'Exceptional items'.
 - As per the decision of Honourable Supreme Court dated 26.05.2014 the Monitoring Committee is required to pay interest at the rate of 8% per annum on 80% of the sale proceeds for the period between the realization of sales proceeds & passing on the same to NMDC. Considering the above, interest income receivable from the Committee for earlier period i.e. from Oct'2011 to Mar'2014 amounting to Rs. 54.59 is included in 'Exceptional items'.
- Other income includes interest income accrued on the amount due from Monitoring Committee amounting to Rs. 18.49 cr.
- Employee benefit expense of current period includes Rs.19.02 cr towards implementation of the Defined Contribution Pension Scheme.
- The Board of Directors has approved in its meeting held on 06-Feb-2015, a Second Interim Dividend of Rs. 4.25 per equity share of Re. 1/-, for the financial year 2014-15. With this for the current financial year, the total interim dividend declared by the company is Rs. 7.25 per equity share.
- Figures for the previous period have been regrouped wherever considered necessary so as to conform to the classification of the current period.
- The financial results have been reviewed by the Statutory Auditors as required under clause 41 of the listing agreement.

Place: New Delhi
Date: 06-Feb-2015

For NMDC Limited
Sd/-
(Narendra Kohari)
Chairman-cum-Managing Director



NMDC Limited
(A Government of India Enterprise)
Regd. Office: "Khanji Bhavan", 10-3-311/A, Castle Hills,
Masab Tank, Hyderabad-500 028
CIN : L13100AP1958G0001674

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HOTTEST

Young Executives



VINEET GAUTAM

CEO, Bestseller India

AGE: 39

GOAL IN LIFE: Wants to
open a restaurant
someday.

BEST LEADERSHIP LESSON:
Never take your
customers for granted.

RACHIT GOSWAMI



Video interview with Vineet Gautam at
businessstoday.in/hye2015-gautam

Quick and Agile

In the five years that Vineet Gautam has been with Danish clothing retailer Bestseller, the company has grown at a quick pace. In 2010, the company had only 38 employees. It now has more than 1,800 employees at more than 450 outlets in 54 cities. When other retailers were cutting store sizes, he chose to open bigger stores. "A lot of brands were built with slow growth, we built it with rapid growth," he says. "We invested heavily into everything."

Even in his previous job, at Benetton India, Gautam had expanded the business aggressively. He increased the number of stores to 100 from 25-30 in a span of two years as the head of south and west zones at Benetton. "The retail industry in India has not matured, so one needs that aggression to grow and to reach that actual potential," says Pawan Khandelwal, who brought in Gautam at the time when the apparel brand, though quite strong in the North, had a relatively weak presence in southern and western India. Khandelwal, who was then the sales director at Benetton, says Gautam would persevere to get better results than expected. "It's good if you have people in your team who are aligned with your thoughts and want to do much more than you're expecting," he says.

The aggression to grow the business continues today. "We have achieved what we set out for and now we can make a plan for 2020," says Gautam. ♦

ARPITA MUKHERJEE



RACHIT GOSWAMI

The Savvy Investor

TWhen Vishwarupe Narain was offered the job of Country Head of TPG Growth in 2007, the role was indeed exciting. He had to set up operations for the company that wanted to set up a \$1 billion fund. The fast-growing Indian economy made it even more tempting. "India was the new buzzword in the global platform," recalls Narain, who was then an investor with Bessemer Venture Partners in New York. Since returning, the IIT Delhi alumnus has invested in surgical equipment maker Sutures, automobile dealer Landmark Auto and AGS, which manages 40,000 ATMs. He has also got global recognition. Last year, he was named as a Young Global Leader by the World Economic Forum. His peers describe Narain as a smart investor and a great leader. "I am yet to come across a professional with extremely strong intellectual capability and a strategic thinker who is so humble and down to earth," says Mayank Singhal, a former colleague who is now Associate Director at Temasek Holdings. ♦

AJITA SHASHIDHAR

VISH NARAIN
Country Head,
TPG Growth
AGE: 38

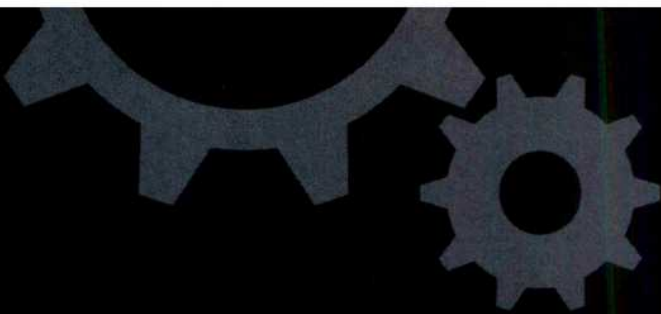
GOAL IN LIFE: Invest more capital in India and create more jobs.

BEST LEADERSHIP LESSON: Teamwork trumps individual effort. We are all incomplete blocks moving towards a complete whole.

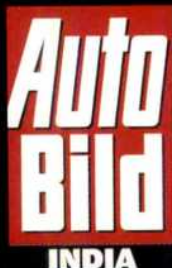
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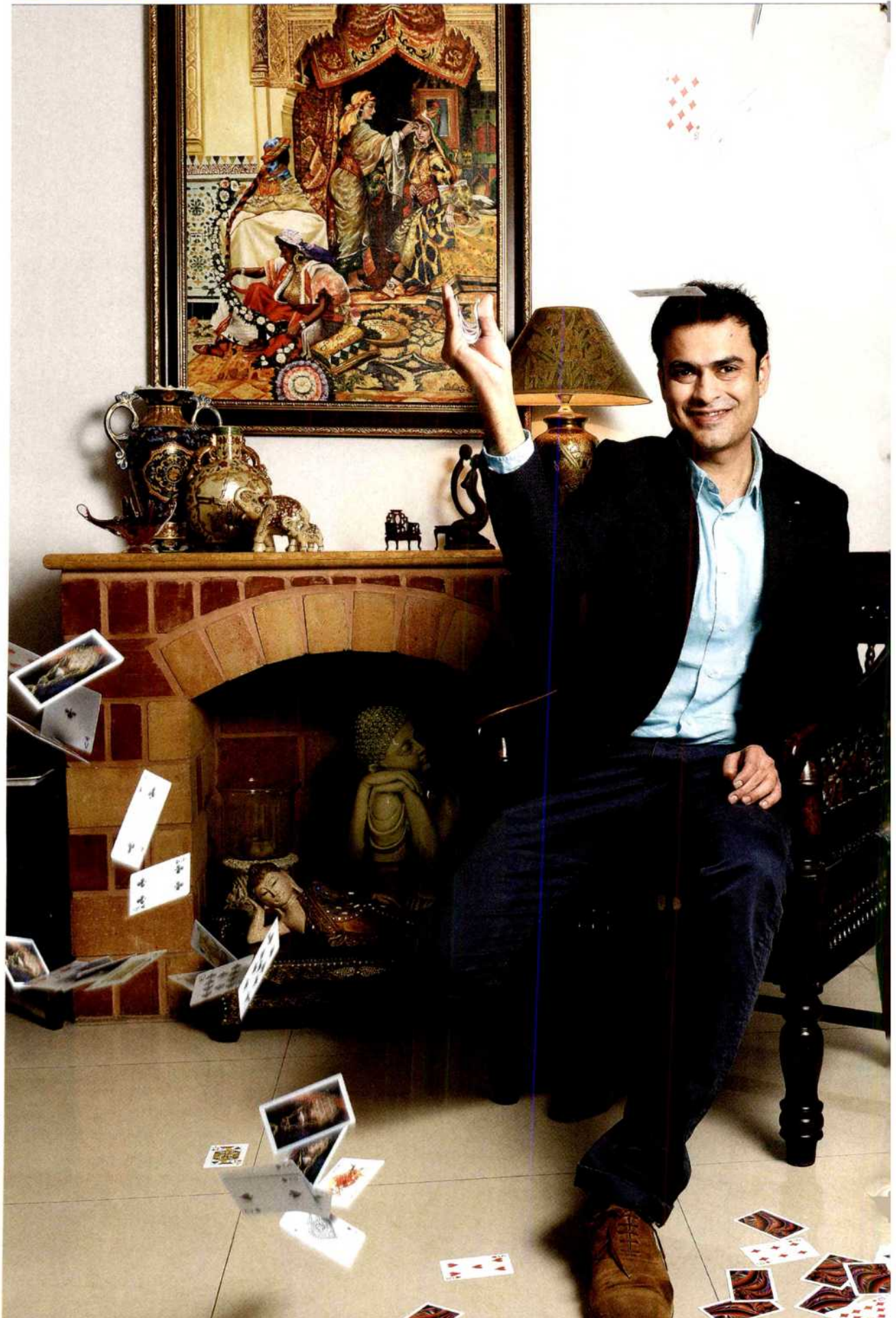
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The Great Gambler

The ibibo Group did not play its cards right and tried its hands at everything in e-commerce. The Group's focus on online travel will also take time to show results. By MANU KAUSHIK

Ashish Kashyap, Group CEO of ibibo Group, has experienced a series of ups and downs in his career spanning 15 years, but nothing comes close to his encounter with Naspers in 2010. Board members of the South African digital media company, which holds over 90 per cent stake in ibibo Group, were unhappy when they found out that Kashyap was experimenting with new projects without their knowledge. However, he was quick to get them around the

table with the promise of making the group a 'dominant' online player across verticals, such as travel, e-commerce, classifieds and payments solutions, in the next seven years.

"The idea was to quietly work and build scale, because the moment a business becomes formal, the scope of experimenting goes down," says Kashyap. However, things have not panned out the way he had envisaged. In the ensuing five years, ibibo Group was forced to get out of most of its online ventures, barring travel.

Kashyap's experiments with too many things at the same time have

not got him too far. And today, despite a proven record of building businesses, his ability to kill businesses has done him in. ibibo Group's chequered journey over the past eight years stands testimony to this.

Missed Opportunities

The company started as a social networking site in 2007 but failed to survive the onslaught of global brands such as Facebook and Twitter. It then turned its focus on online gaming which failed to take off as well. As his ventures began to flounder, Kashyap, who was left with some two million active users on the gaming database, decided to work on a few projects – online travel and payments – without informing Naspers. A few team members were isolated, and some \$50,000 was brought in. By the time Naspers found out about these side projects in 2010, luckily for Kashyap, most of these businesses

“WE WILL BE MOVING OUT OF ALL BUSINESSES WHICH ARE NOT FOCUSED ON TRAVEL, TRANSPORTATION AND LODGING”

ASHISH KASHYAP/ GROUP CEO/ IBIBO GROUP

had started gaining traction. In 2011, ibibo formally launched PayU, a payment gateway solutions portal.

By 2013, the Group was present across four different high-growth sectors. But, despite its grand plans, ibibo could not become the poster boy of the Indian online revolution. Experts say the conglomerate-type approach, which had the support of the Naspers management, failed to deliver. "It wanted to do everything at the same time. The idea with many Internet companies is that if you can create customer base on



“WE HAVE HUGE FOCUS ON MOBILE. THE NEXT RUNG OF CUSTOMERS WILL COME THROUGH MOBILE”

PRAKASH SANGAM/ CEO, REDBUS

one platform, other platforms can also benefit from it. This clearly did not work for ibibo,” says Harish H.V., Partner at consulting firm Grant Thornton India.

The Tradus story

Tradus scripts a sorry tale of what could exactly go wrong with an e-commerce business. In 2008,

Naspers’ acquisition of the UK-based Internet auction firm was touted as the next big thing in the Indian online space, but the initiative did not pay off. Naspers had given Kashyap, and his team, two to three years to weave a success story around Tradus. But, it soon seemed to give up on the product’s prospects and, instead, investing around \$100 million Flipkart

in 2012 for a 10 per cent stake. The initial failure led to Tradus constantly shifting its business model. It pivoted from online retail to marketplace followed by mobile commerce and proximity e-commerce. In the last two years, the model was changed four times with no success each time. Tradus changed its model to stay away from what Flipkart was doing. Finally, the promoters tacitly accepted defeat and quietly underwent a pivot to sell only groceries in 2014. “At every step Flipkart was beating Tradus hands down. The real churn came after Amazon’s entry in 2013 when things began to move much faster and Tradus just lost the game,” says a former Tradus employee. Online grocery store is a low-margin business that requires patience and time before it starts showing results. “The reason for getting into the grocery business was driven by the fact that Flipkart has a stated policy of never going into grocery,” quips a former employee.

Behind Tradus’ failure as an online retail portal was indecision and the inability to stick to its plans. “There was nothing wrong with its approach, especially in the early days. It was selling the same products as others—mobiles, electronics, apparel, books and home appliances—at deep discounts. But somehow they were

IBIBO GROUP’S BUSINESSES: The potential and challenges

goibibo .com	redBus .in	tradus .com
Goibibo.com	redBus.in	tradus.com
TARGET MARKET SIZE ₹54,900 cr⁺	TARGET MARKET SIZE ₹2,500-3,000 cr*	TARGET MARKET SIZE ₹14,000 cr^#
COMPETITORS Makemytrip.com, Yatra.com, Cleartrip.com	COMPETITORS Travelyaari.com, BusIndia.com, Abhibus.com	COMPETITORS LocalBanya, ZopNow, EkStop, AaramShop, MyGrahak

+Source: Phocuswright estimates for 2014 (includes size of airline, hotel, train and car rental markets); *Industry estimates; ^Source: PwC report; approximate figures for 2013, currency conversion based on prevailing exchange rates; #Online grocery is a small fraction of the e-tailing market in India

INDIAN SOJOURN: How Ibibo grew in the country



always behind the curve," says an online retailer.

Meanwhile, both Snapdeal and Flipkart stuck to the marketplace model to make rapid progress. They attracted merchants across the country and invested heavily on the mobile platform and marketing. "Each customer acquisition is very costly. Logistics and brand building is also very expensive," says Harish, pointing to ibibo's inability to raise funds from different sources. "It looks like the parent company was dictating what they should do and what they shouldn't," he adds. Before accepting defeat, Kashyap did make a last-ditch effort to resist the onslaught from peers and resurrect Tradus by acquiring Hyderabad-based BuyThePrice to build a strong base in south India, but it proved to be too little, too late.

Realising that he has missed the early-bird advantage, Kashyap is now ready to move on. "We will be moving out of all businesses, including Tradus, which are not focused on travel, transportation and lodging," he says, announcing the death of yet another venture. While the

group was struggling to carve out space in e-commerce, it made some smart moves. The investments in car classified company Gaadi.com, in particular, grew five times in the 44 months after it acquired Gaadi.com from Accentium Web in 2011 for about \$2 million. "We were looking at opportunities in the classifieds space. Later, we realised that it was not fitting into our core business. It turned out to be a drain on our management bandwidth so we got out of it," says Kashyap. The subsidiary was sold to Cardekho.com for around \$11 million.

All's Not Lost

Kashyap believes he can turn things around with Goibibo, the travel arm of the group. But, industry insiders feel, it will not be easy to compete with major players such as Makemytrip.com, Yatra.com and Cleartrip.com given the group's past record. A 2012 Phocuswright report on the online travel agents (OTA) market says that Makemytrip had 47 per cent share followed by Cleartrip and Yatra at 20 per cent each.

Others, including Goibibo, shared the remaining market share. However, the market share has changed significantly since then.

While the group was struggling to carve out a space in e-commerce, and had barely started off dealing in air tickets under the Goibibo brand, it had made some smart acquisitions, including redBus.in, Travel Boutique Online and YourBus.in. It had also entered into the hotels segment. Kashyap said that the idea of getting into these businesses was driven by removing pain points for end consumers. For instance, in online travel, major issues are speed of transactions and refunds. He says that almost 30 per cent users, who book online, make changes to their travel schedules. "They would usually get their refunds in about four weeks. We were the first one to introduce instant and automated refund facility in 2010, where money was returned in three to four days," says Kashyap.

A lot of work has also gone into speeding up the transaction time. "People should be able to check out in two to three clicks and cancel with

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just one," he says. Vikalp Sahni, Chief Technology Officer of Goibibo.com, says that the core proposition was to build a travel product which would provide users with a differentiated experience. "At that time, other OTAs used to make users wait to fetch fares from airlines. Now, the whole paradigm has changed. I have a philosophy that technology is ever changing and we want to be ahead of others in terms of speed and customer experience," says Sahni.

Kashyap is now single-mindedly focused on the online travel market. "He is doing the right thing by chasing the biggest segment," says an industry expert. According to a 2013 PricewaterhouseCoopers-Assocham report, *Evolution of E-commerce in India*, online travel dominates the e-commerce industry with an estimated 70 per cent market share. A Morgan Stanley report values Naspers' travel business in India at just under \$1 billion at the end of October 2014.

Of Travel and Travails

It is ironic that the business that started off as a side project has today become the mainstay for the group. Kashyap is putting all his energies to make it bigger through organic and inorganic routes.

Broadly, online travel has five components: rail, bus, air, hotels and car rentals. OTAs, such as Makemytrip and Yatra, operate both online and offline channels. ibibo Group claims to have an air market share of 35 per cent, but analysts argue the high market share is driven by Goibibo's business-to-business (B2B) segment where profit margins are much lower at 1.5-2 per cent. Margins in the business-to-consumer (B2C) segment, on the other hand, are at 4-6 per cent. "B2B helps in generating large volumes but there's no real value in that business," says an industry expert. Kashyap, however, says that B2B air transaction is around 30 per cent of the Group's overall air ticket transactions.

FAULT LINES

What went wrong with Tradus

1. ibibo Group forayed into almost all Internet businesses at the same time – e-commerce, travel, payments and online car classified. As a result the group could not focus on Tradus

2. E-commerce site Tradus pivoted its model five times between 2008 and 2013 to stay in the game. But other large e-commerce players such as Amazon India, Flipkart and Snapdeal were far more aggressive across all areas – marketplace, mobile commerce and local e-commerce

3. Tradus, which was funded by Naspers, could not compete with bigger players who were funded regularly with hefty sums, and invested heavily in marketing

4. In its last attempt, Tradus decided to get into selling grocery, which is a low-margin business, and requires patience before it starts making money. However, the investors seem to have lost hope

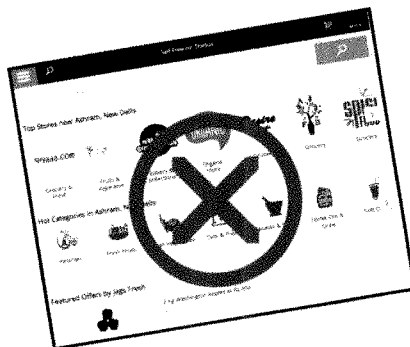
5. Tradus may shut shop soon

Since the growth of the highly-penetrated online air ticket market in India has started to slow down, OTAs, including Goibibo.com, are shifting to non-air revenue streams, such as hotels and online holiday packages. And a highly-fragmented hotel industry poses a huge opportunity. According to consultancy firm Phocuswright, online hotel penetration stood at just 17 per cent in 2013.

Within a year of the launch of its hotels booking business in 2013, Goibibo has a listing of over 16,000 branded and unbranded hotels, and has some 200 dedicated executives on-ground adding more hotels to the portfolio on a regular basis. "We are making big investments in the hotels segment," says Kashyap. Ensuring quality of service through partner hotels has, however, been a challenge for most OTAs.

Bus bookings have been another under-penetrated online market. According to some estimates, there are 7.5 lakh luxury and semi-luxury seats available per day. Of this, only 15 per cent are booked online. Goibibo launched its bus ticketing service in 2012 and tied up with redBus to populate listings on its site. The following year, it bought redBus for \$138 million to further cement its place. Like many other mergers and acquisitions, acquiring redBus was not easy. Within a year of the buyout, most of the senior management team at redBus, including founder Phanindra Sama, quit. A new management team has been put in place with the appointment of Prakash Sangam as CEO in June 2014.

Sangam says online bookings are largely taking place for luxury buses but a huge part of the non-luxury segment is yet to be fully tapped. "We have huge focus on mobile. The next rung of customers will come through mobile," says Sangam, adding that since the integration, there's lot of cross-selling happening across the redBus and Goibibo platforms. "From a consumer's point of view, these are





NILOTPAL BARUAH

two independent brands. We collaborate in the back-end, but we are competing on the front-end side," he adds. RedBus sells tickets through its own web site, 'mom and pop' shops and agents, who are e-enabled by the company.

A relatively new player in the OTA market, ibibo Group has taken lead in several areas. Take the bus segment, for instance. With nearly 70 per cent share, redBus is almost 15 times bigger than its nearest competitor. With a customer-centric approach, the group has also acquired bus tracking and analytics firm YourBus.in last year and has installed GPS in some 2,000 buses, which give real-time information on their movement to consumers and operators on mobiles and online.

While most other OTAs have developed an inventory management system for their hotel partners, ibibo has gone a step ahead on this front. For instance, Goibibo provides a comprehensive analysis to hoteliers, include reviews, rankings (among hotels in the same location) and suggestions to improve on their rankings, among others. "We deliver very deep analysis when others are focussing on just prices and inventory," says

“TECHNOLOGY IS EVER CHANGING AND WE WANT TO BE AHEAD OF OTHERS IN TERMS OF SPEED AND CUSTOMER EXPERIENCE”

VIKALP SAHNI/ CTO, GOIBIBO.COM

Kashyap. But, how does it help? A greater analysis and a feedback loop between buyers and owners help hoteliers in improving their quality of services and perception which, in the long term, enable them to command premium over competitors, benefiting the industry as a whole.

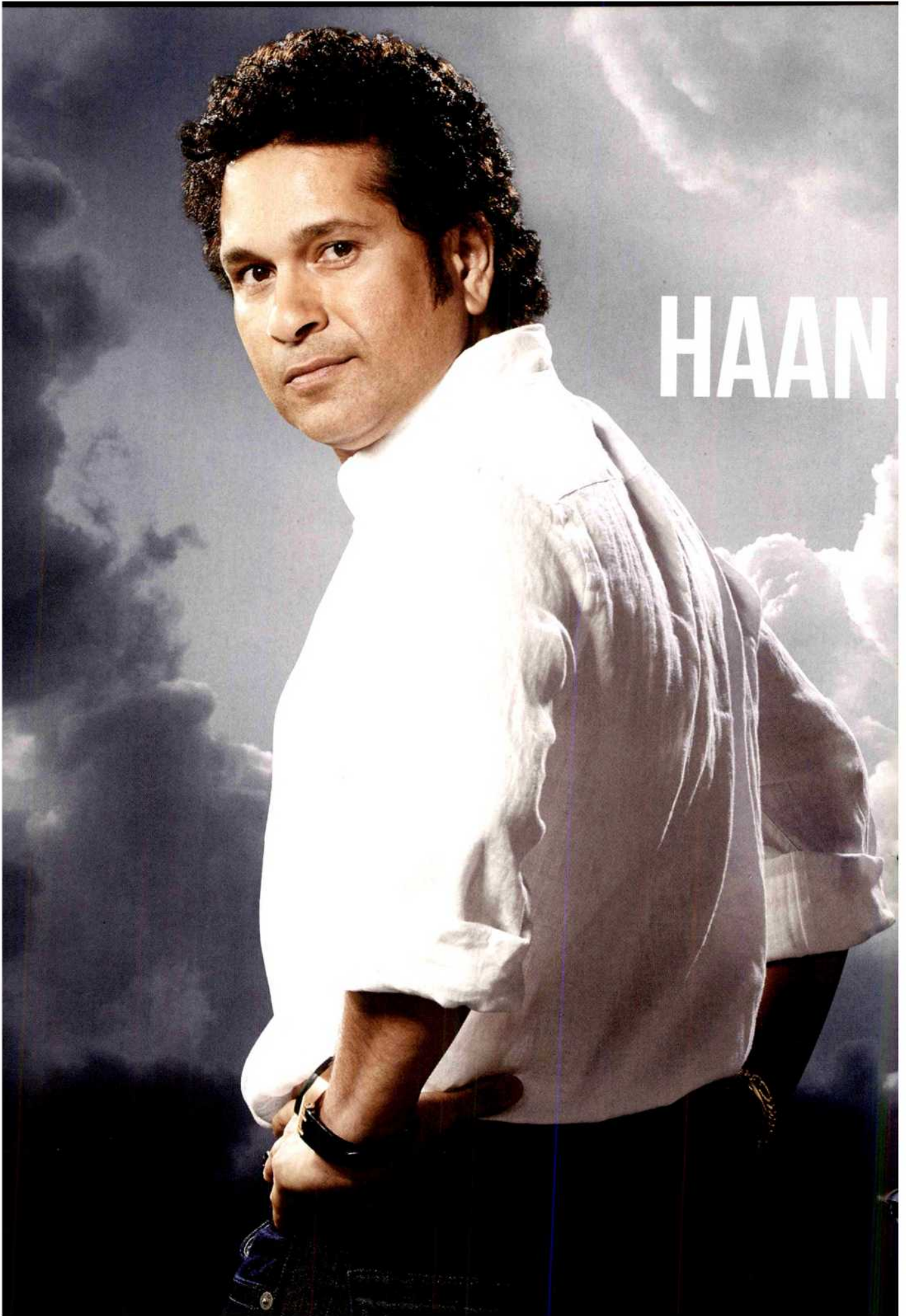
Above all, despite temptations, Kashyap has stayed away from the offline holidays and rail booking businesses. Rail booking generates a lot of traffic for OTAs, but the margins are narrow as the commissions are regulated by the state-run Indian Railway Catering and Tourism Corporation. "Customer satisfaction and reliable checkouts are very important for us. The problem with rail booking is more of a technical integration issue," he says.

Going ahead, the key focus area for the Group will be to increase the hotel inventory from 16,000 to

over 50,000 in one year. According to estimates there are 1.5 lakh hotels, guest houses, bread and breakfast, homestays and lodges in India. With Goibibo, Kashyap plans to tap into markets such as Southeast Asia and West Asia, where the company will put its own resources on ground to register hotels. Besides hotels, the group plans to invest in mobile technology to scale up the small-screen share to 80 per cent of all transactions over the next four years, and take redBus international. Naspers too shares the excitement with Kashyap and has backed his decisions to the tee.

Now it's for Kashyap to show the world what he stands for. He has a long and challenging journey ahead and lessons from the past will stand him in good stead. ♦

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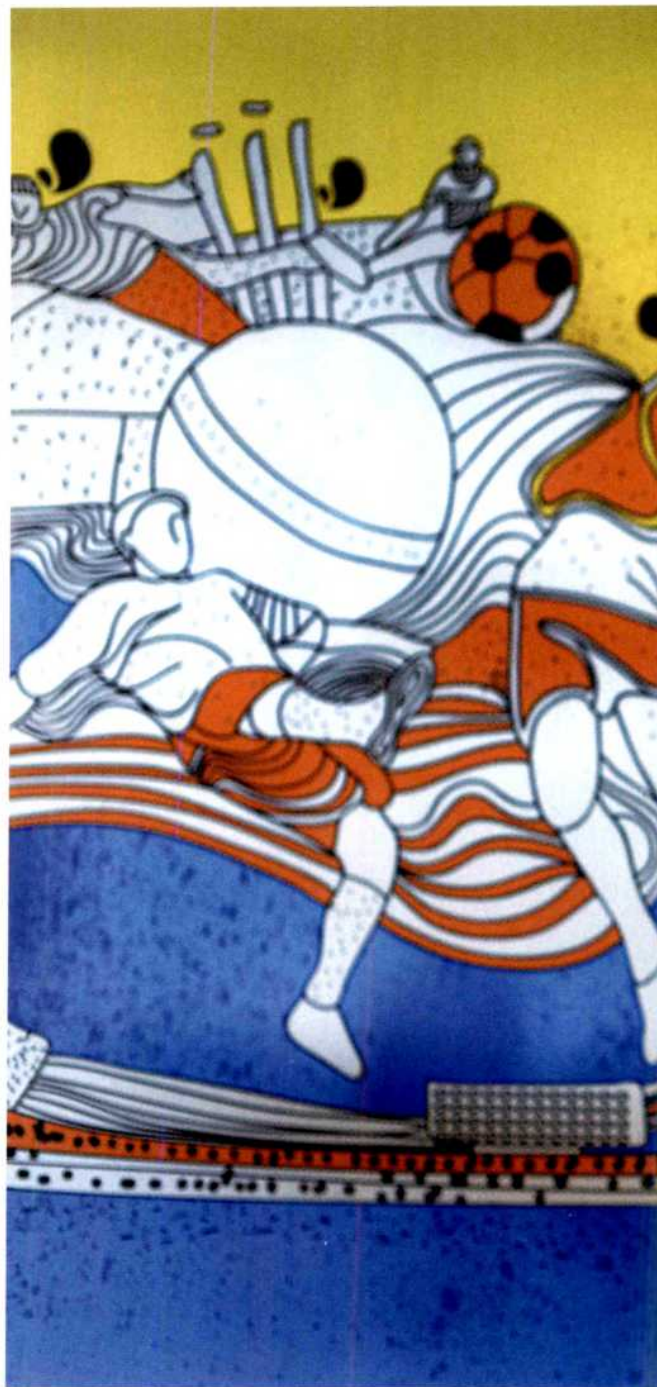
EMMMA WALMSLEY, President of GlaxoSmithKline (GSK) Consumer Healthcare, is leading her company through an exciting deal with Novartis' consumer healthcare business. She will be the CEO of the new joint venture. Excerpts from an interview with Chitra Narayanan:

Two years ago when you were here, you visited chemists and talked about your ambitions for India. How has that translated in terms of growth and investment for GSK India?

Every time I visit a country, I visit the front line and the stores with the sales reps to see how the brands are growing, how retailers are changing and what's going on with consumers. I am proud of the progress the GSK team has made here but I see enormous opportunities ahead, not just because of our business, but also because of the way India is changing. In terms of delivery, over the last few years Zubair Ahmed [MD, GSK Consumer Healthcare India] has delivered a top-line growth rate of 16 per cent and bottom-line growth rate of 18 per cent, which is best in class. We have significantly increased investments in the country over the last two years – it's been £50 million of investment, including a fantastic new futuristic office in Gurgaon. We will look at increasing our manufacturing capacity to add to our five manufacturing sites here. We have expanded the access of our products, and distribution has doubled in the last few years. Last year, we were the fastest-growing major MNC in terms of distribution.

So what new distribution channels are coming up? Are you looking at e-commerce?

Yes, we are looking at e-commerce but it's tiny. One point which has been important for us is driving deep access of our products. We are in 20,000 villages. We have invested heavily in innovation to deliver our products in sachet forms. We have six billion serves of Horlicks a year. We have 1.75 billion sachet forms of a few brands



“I don't worry about



my competition”

going out. We have put in lots of exciting new IT and handheld tools among our field force to improve efficiency. We have worked hard on our innovation pipeline to create products that are relevant for Indians.

Can you give an example?

Learning from Indian habits where people would often use cola-flavoured remedies for digestion, we created a cola-flavoured Eno. On Sensodyne, we recognised that our

might in future have leading positions in antacids, in skin health products and, particularly in India, in nutrition.

Are the nicotine de-addiction products from Novartis coming to India?

It's big in the US. But the challenge in India is about finding the right economic equation whereby we make, distribute and sell a format that doesn't become a real disincentive for people to give up smoking. Also, there are some con-

“Our job is to supplement people's daily diet... but a meal replacement is not happening”

formulation needed to be at the right level of foaming for India, so we adjusted that. We are constantly listening and trying to optimise the pricing structure, the formats and the product flavours.

Have you created anything specific to India that could be exported?

Mother's Horlicks is an example of something that would be under review for exports. We are looking out across Asia, Africa and West Asia.

What about the cola Eno?

A big luxury for Eno in India is that the volumes are here. Again, it's been great work done on low-unit price packs to drive access here. After his great performance I have promoted Zubair – he will be accountable for a vast proportion of the world's emerging markets, all of APAC, West Asia and Africa. I am sure there will be many best practices that we have seen delivered in India exported.

How will the Novartis deal help you grow?

The deal is not closed until sometime in the first half of this year. We still have regulatory approvals to go through. Until we have closed, we are operating separate competing companies, so there is very limited planning you can do until you are fully integrated.

The new GSK Consumer Healthcare (post JV) will be a world leader in many critical categories, whether it is pain relief with the Crocin brand or Voltaren, and many local brands like Iodex. We will have a leading position in respiratory, which is an opportunity market in India, with Otrivin or Theraflu from Novartis or Fluvirin. We



sumer challenges about chewing gum, which is not an Indian behaviour. My view is we have other bigger opportunities. Half of our business worldwide is in OTC (over the counter products), half is in FMCG-like brands like Horlicks and Sensodyne – let's get to that balance in India first, and then we will see.

In India, what's the breakup?

We are close to 80 per cent in nutrition and 20 per cent in oral healthcare combined with wellness. So there is lot of opportunity in wellness here.

Globally, what are your top brands? And what are the top three GSK brands in India?

The new company has 19 brands worth over \$100 million each. In India, Horlicks is incredibly important. We are booming with Boost. We have done well with Sensodyne but there is an opportunity to drive penetration there.

Are OTC product makers like you going to compete against FMCG companies?

There are specific capabilities that healthcare and pharmaceutical companies have, whether it's the science that underpins them or designing the clinicals or the regulatory capability. I have spent 17 years in consumer goods and then I moved into healthcare, so I know it is a different capability. Healthcare is a serious business – this is not just marketing products, we are dealing with very qualified professionals who expect clinically proven science. The magic will be when we can bring first-class healthcare capabilities like big pharma and first-class branding, consumer insights, integrated supply chain, that you get more



Emma Walmsley's full interview at
businesstoday.in/gsk-walmsley

in modern trade, packaging innovation, etc. We want the best of both and I think we are uniquely equipped to do that. The pharmacy channel is critical but the pharmacy channel needs FMCG capabilities too. Yes, the lines are being blurred but I don't think we are going to tread on each other's territory. There's a lot of room for growth for all of us, especially in India where penetration is so low.

How does a big company like GSK take on small, nimble rivals?

We are working on becoming faster. First of all, we need to change the way we design our companies. This is easy to say but it's a lot of work to do to make sure we don't have too many layers and too many interfaces of people having to approve the same thing. The second thing is discipline around aligned objectives. Big companies have matrixes and if everyone in the matrix is doing their own thing, things will slow down. The third thing is culture. Personally, I've always believed in 80/20 view of just trusting your gut and being a courageous leader and making decisions. That doesn't mean stupidly making decisions but also not analysing stuff to the nth degree. A good decision taken early is better than faffing around and not doing anything, so we will encourage that.

What are you doing to keep ahead on the digital front?

I took all my leadership team on a digital safari and we hung out with the leaders of many digital businesses. Last year we made digital capability one of the biggest priority investments for us. Every marketer in the company was trained on a six-module digital capability last year.

Going forward, do you see the consumer accepting a tablet instead of food?

No. I watch my Indian colleagues at a buffet and, believe me, the day they accept a pill like that is a thousand years away. Our job is to supplement people's daily diet because 70 per cent people are not getting the recommended nutrition, but a meal replacement is not happening.

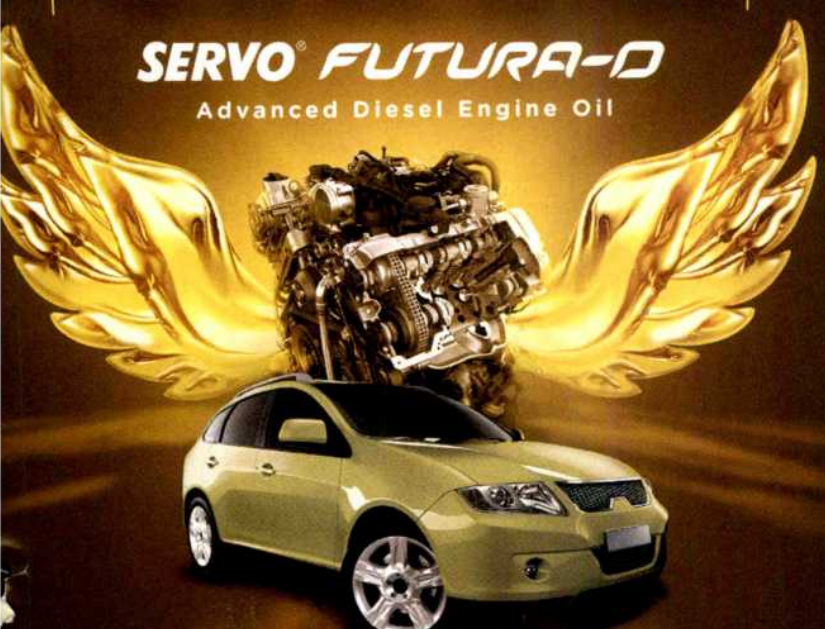
Which is the one competitor brand that gives you sleepless nights?

I sleep extremely well. I respect my competition but I don't worry about them. I am more interested in watching the consumer than watching the competitor. ♦

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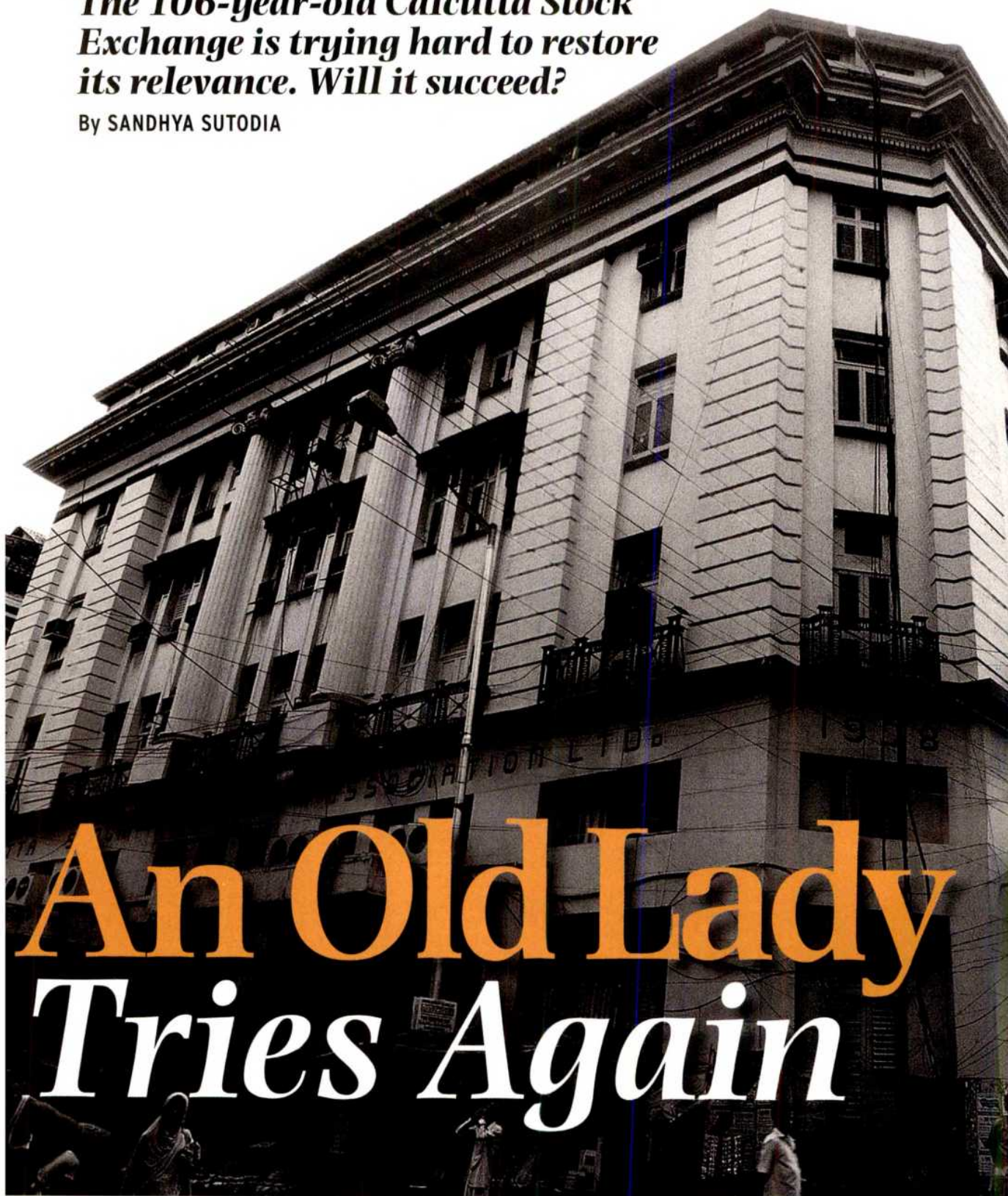
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The 106-year-old Calcutta Stock Exchange is trying hard to restore its relevance. Will it succeed?

By SANDHYA SUTODIA



R

Regional stock exchanges (RSEs) thrived in the years when shares were traded in the form of physical certificates and an exchange's brokers were largely confined to the city in which it was located. Just two decades ago, for instance, there were 19 RSEs dotting the country with sizeable share trading being carried out through them. But the digital age, which made demat shares the norm, and also saw the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) expand operations across the country, has made their relevance increasingly questionable. Many traders and companies have preferred to delist from the RSEs and enroll with the BSE or NSE.

Only one RSE is making a determined bid for a comeback – the Calcutta Stock Exchange (CSE). “We have consolidated the exchanges of Ludhiana, Bengaluru, Madhya Pradesh, Jaipur and the OTC Exchange of India (OTCEI),” says B. Madhav Reddy, Managing Director and CEO, CSE. “The aim is to create a larger platform which will bring liquidity to the system.” The exchange is in talks with a few other RSEs for amalgamation as well. It also intends to sell around three acres of prime urban land it owns along Kolkata’s Eastern Metropolitan Bypass for around ₹250 crore to ₹300 crore and invest the earnings in improving its systems. It has already spent substantially in the last three to four years on updating its IT infrastructure, introducing a Bengali language website and tying up with the United Bank of India to offer online equity trading facilities to its customers.

Reddy believes institutions like the CSE are still necessary to increase the number of retail investors. “That will not happen with a bunch of big brokers, trading on the BSE and NSE, opening branches across the country,” he says. “More platforms are needed and the CSE can play an active role in ensuring retail participation.”

However, the challenge is formidable, considering the CSE has practically stopped functioning. Some trades continue on the platforms of the Bombay

Stock Exchange (BSE) and the National Stock Exchange (NSE) with which it has special arrangements, but they are small and few. It has been this way since April 4, 2013, when the Securities and Exchange Board of India (SEBI) barred trading on the CSE’s online platform C-Star, until the exchange establishes a clearing corporation or ties up with an existing one, in accordance with the Stock Exchanges and Clearing Corporations Regulations, set by the SEBI in 2012. The CSE has so far been unable to do so.

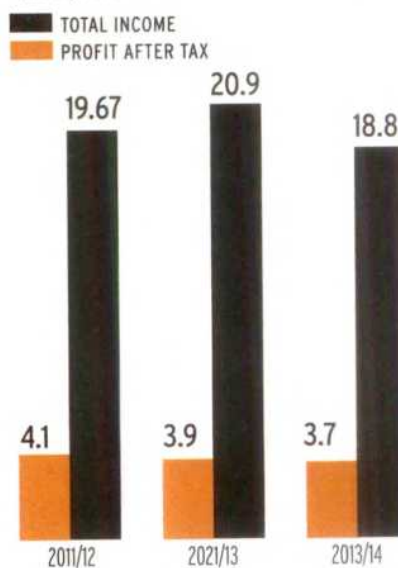
There were other reasons too for the RSEs decline, apart from their inability to cope with the digital onslaught. Many of them – including the CSE – found it difficult to meet the increasingly stringent rules and standards imposed by the SEBI – such as the abolition of ‘badla’ trading – in its drive towards greater professionalism. The CSE, in addition, never really recovered from its payment crisis of 2001, an outcome of the Ketan Parikh scam, when 10 of its broking firms defaulted on their payments and the exchange’s Settlement Guarantee Fund had to be resorted to. Until then, the CSE had a



Set up in 1908, the CSE is the second-oldest stock exchange in South Asia after the BSE

SLOW AND SLUGGISH

CSE’s financials have stagnated in the past three years



Figures in ₹ crore

Source: CSE

MARKETS Calcutta Stock Exchange

HUGE DIFFERENCE: CSE's turnover is minuscule and has slumped in recent years...

	2011/12	2012/13	APR-DEC '12	APR-DEC '13
CALCUTTA	5,991	4,614	3,286	159
BSE	6,67,498	5,48,774	4,10,230	3,75,015
NSE	28,10,893	27,08,279	19,73,624	20,87,367

Turnover in cash segment in ₹ crore

... and it fares no better in terms of quantity of shares traded

	2011/12	2012/13	APR-DEC '12	APR-DEC '13
CALCUTTA	1,681	1,776	1,221	37
BSE	654,137	567,220	413,178	337,157
NSE	1,605,205	1,659,160	1,203,558	1,151,961

Number of shares traded in lakhs

Source: SEBI

daily turnover of ₹60 crore to ₹90 crore (recorded in the second half of 2011/12); in its aftermath, with much credibility lost, this fell to less than ₹15 crore to ₹20 crore.

Finally, in May 2012, the SEBI introduced an exit policy for poorly performing exchanges, directing that all those without a minimum net worth of ₹100 crore and minimum annual trading volume of ₹1,000 crore should wind up. It set exchanges a two-year deadline to comply. Since then majority of the RSEs have shut shop, while the remaining few are in the process of doing so. The CSE satisfies the SEBI's first criterion and senior officials believe that, given its tie-ups with the BSE, NSE and even the MCX-SX, plus the merger with other RSEs, the second too should not be a problem.

The CSE's annual membership fee of ₹10 lakh as a base deposit is much lower than that of the BSE or NSE, which it expects to be an added attraction. Some of the proceeds from the land sale could also be used to buy a stake in a clearing corporation. The CSE has requested the SEBI to extend its May 2014 deadline by nine months, but has yet to receive a reply. "We are in correspondence with the SEBI," adds Dipankar Chatterji, Chairman, CSE. "Something will happen soon. We are also waiting for new norms for clearing corporations which have been in the draft stage for

two years."

Many analysts, however, are not convinced. "Merging with other RSEs is only a bid for survival," says B.L. Mittal, Chairman, Microsec, a Kolkata-based financial services company. "It is unlikely to add too many new companies or brokers. Many of them have already switched from the defunct RSEs to the BSE and the NSE.

"We have consolidated the exchanges of Ludhiana, Bengaluru, Madhya Pradesh, Jaipur and the OTC Exchange of India. The aim is to create a larger platform which will bring liquidity to the system"

B. MADHAV REDDY, MD & CEO, CSE



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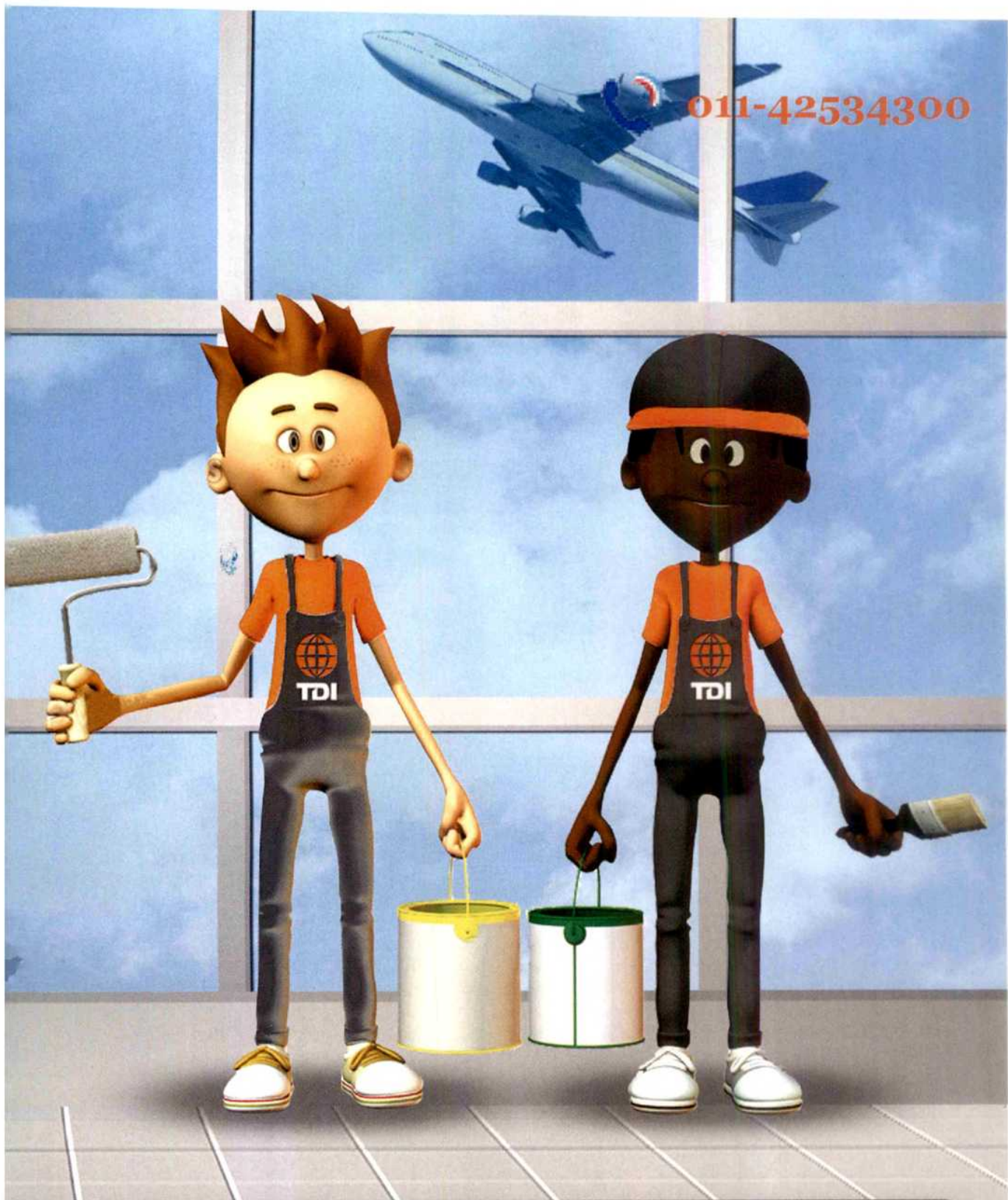
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BRIDGING THE VERNACULAR GAP

A CLUTCH OF COMPANIES IS RACING TO BUILD AN INDIAN LANGUAGE INTERNET TO MEET THE GROWING DEMAND FOR NON-ENGLISH CONTENT FROM WEB USERS.

BY GOUTAM DAS

► **N**ever mind the recent diktat of the Ministry of Human Resource Development to replace German with Sanskrit as the third language in Kendriya Vidyalayas, the odds appear to be heavily stacked against Indian languages – at least on the Internet.

Sample this: the Sanskrit Wikipedia has 11,000 articles; the German Wikipedia 1.79 million. The statistics for Hindi, one of the world's most common languages with more than 422 million speakers, are no better – there are only 22,000 Wiki pages. Rajan Anandan, Managing Director, Google India, recently wrote in a *Business Today* column that even Estonia, a small European country with a population of just 1.5 million, has more Wiki entries at 55,000 pages. No Indian language, in fact, finds a place in the top 10 global languages used on the Internet.

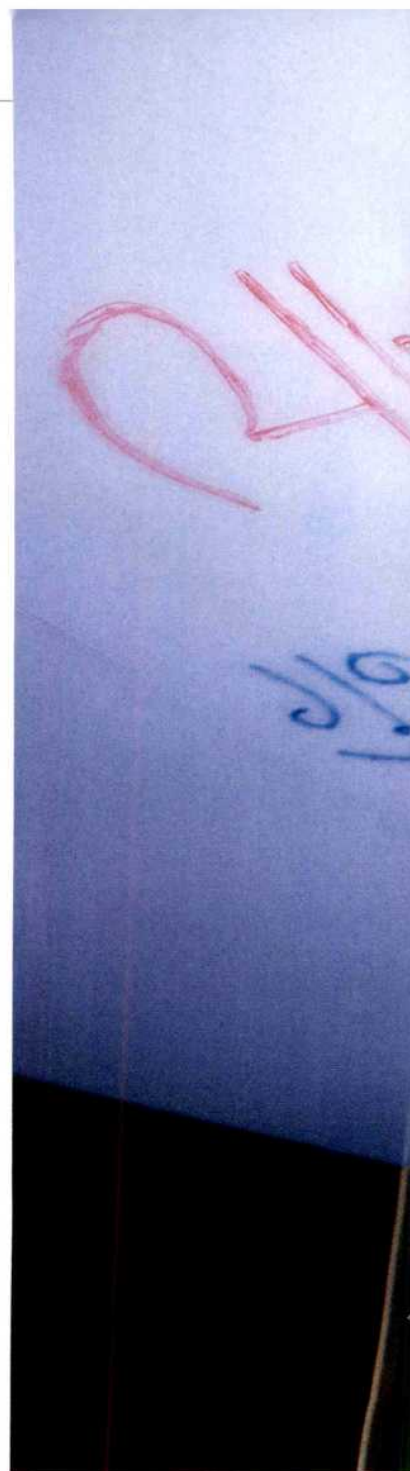
All this may change in the next few years as companies, both start-

ups and established giants such as Google, race to build the Indian language Internet. Google, in November, launched the Indian Language Internet Alliance, a group of 19 content and technology companies, to “accelerate building of Indic language content” online. And roughly 20 start-ups are working on content discovery, localising content, Indian language keyboards, fonts, user interfaces and speech recognition, according to Virendra Gupta, Founder of Bangalore-based Ver Se Innovation, which runs a local language news and e-book app.

What explains the need for web content in local languages is the growing number of Internet users in the country and the saturation of English-speaking population already online. India has about 300 million Internet users. This includes almost the entire English-speaking population of 198 million, according to Google. The number of web users is estimated to touch 500 million by 2017. But that can happen only if

Indians can access the Internet in their local languages.

Nobody, however, has an estimate for the size of the market for Indian language Internet or its potential. According to market research firm Common Sense Advisory, the global market for outsourced lan-





VIVAN MEHRA

Rakesh Deshmukh co-founded MoFirst Solutions, which developed a Gujarati phone brand, **Firstouch**. The Mumbai company is now licencing its operating system to other phone makers

guage services and technology likely surpassed \$37.19 billion in 2014. This is estimated to increase to \$47 billion by 2018. Gupta of Ver Se Innovation says if the Indian language book publishing industry moves online, it can create a digital opportunity worth nearly \$7 billion

for both the content providers and technology players.

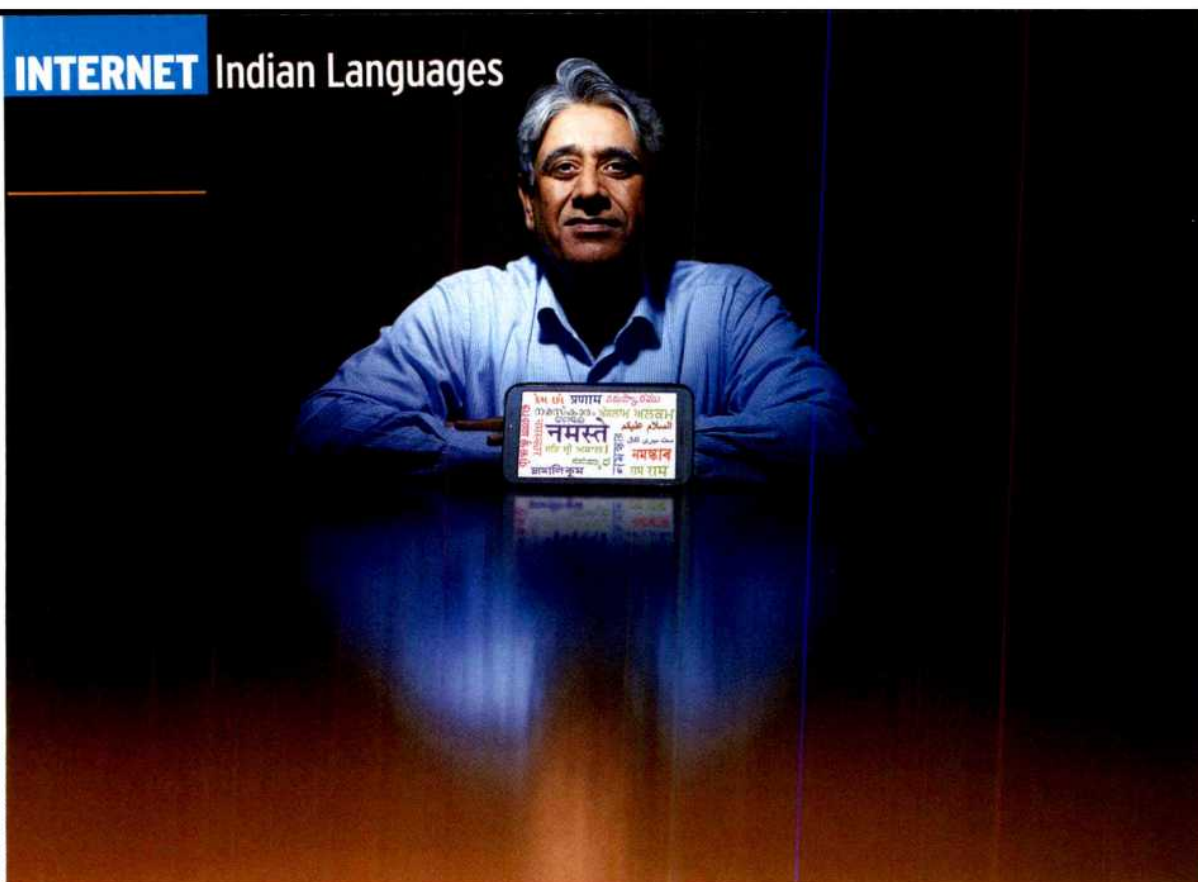
Anticipating rapid growth, venture capital money has already started flowing in. In September last year, Ver Se Innovation raised \$20 million in Series B funding led by Sequoia Capital, and existing inves-

tors Matrix Partners and Omidyar Network. In December 2013, Helion invested in LinguaNext Technologies, a start-up that "localises" enterprise apps such as SAP and Oracle by making them multi-lingual.

Clearly, building the Indian language Internet will have huge impli-

INTERNET Indian Languages

VIVAN MEHRA



Rakesh Kapoor, MD of Gurgaon-based **Process Nine Technologies**, works with mobile phone makers and e-commerce companies to localise the device interface and translate content from English to other languages

cations for content providers, e-commerce companies trying to penetrate smaller cities and towns, mobile-phone makers as well as telecom operators. For instance, most Indians will access the Internet on their smartphones, whose interface now needs to be in the language they can read. Smartphone sales have been rising, thanks to falling prices. According to market research firm IDC, smartphone shipments in India likely touched about 80 million in 2014 from 44 million the previous year. This makes India not just the fastest-growing smartphone market in Asia Pacific but also a battleground for innovation where several start-ups are developing technology that helps access Indian language content on the mobile phone.

Touch and Feel

It is 9.30 on a chilly December morning. A Starbucks outlet in Gurgaon's Cyber Hub is bustling with souls looking for a hot cuppa. In one corner sits

Rakesh Deshmukh, wearing blue shirt and trousers with a blue and brown jacket. He takes out a white smartphone from his trousers pocket. "It is a four-inch device with a dual-core processor, four GB internal memory, 512 MB RAM," he blurts out. He also shows the mobile phone's packaging – the box has Gujarati characters and a sentence in English: "Patented swipe technology".

Deshmukh co-founded MoFirst Solutions, which developed a "regional" mobile phone brand, called Firsttouch. Using the swipe technology, a user can write a text message, an instance message on WhatsApp or even an e-mail in Gujarati and swipe. The message gets delivered in English. Alternatively, messages received in English can be swiped to translate into Gujarati. Deshmukh reveals that his company also has a patent for *matra* prediction that helps users when they start typing in Gujarati. "We launched the phone in May 2014 in Gujarat on a pilot

basis. It was priced at ₹6,000 and we sold 5,000 phones," he says. Although the traction the phone got validated that regional language handsets will work, scaling up would have been an issue for a start-up in the business. The company, funded though angel investors, has now decided to license the operating system to other mobile phone makers. Besides Gujarati, the company is developing the operating system in five other languages.

Reverie, a five-year-old company in Bangalore, is more established with handset makers such as Micromax, Karbonn, Panasonic, Spice and Celkon. Arvind Pani, who co-founded the company with his brother Vivek, and is also its CEO, recently visited the customers in Delhi. "We are a language experience company," he says, after polishing off a burger at a McDonalds outlet in Noida. The company's platform can be embedded into a mobile phone and that would enable Indian language

fonts, keypads with predictive input capability as well as transliteration. Reverie also has a phonebook app that can replicate the English phone book in 11 languages. The app came embedded in a Micromax phone and saw three million downloads in six months, Pani claims.

Indianising E-commerce

Reverie and other companies are also working to translate the content of e-commerce companies, largely in English today, as well as provide regional language search, among others. "We have launched a language-as-a-service platform. All our technologies are in the cloud. A dozen consumer Internet companies are evaluating it," says Pani. The company has revenues of ₹8 crore to ₹10 crore and expects to clock ₹100 crore over the next three to four years. "There is interest from e-commerce companies, travel companies as well

as app-based cab service companies," adds Pani, whose company has received funding from the US chip giant Qualcomm and angel investors.

Not far from MoFirst Solution's office in Gurgaon is the basement workplace of Process Nine Technologies. The company works with mobile phone makers such as Lava, besides e-commerce companies, to localise the device interface and translate content from English to other languages. "We have translated the product portfolio of Snapdeal into six languages," says Managing Director Rakesh Kapoor.

A Snapdeal spokesperson says 20.9 million web users in urban areas browse content in their regional language. In rural areas, nearly 64 per cent use the Internet in their local language. "We were the first online marketplace in the country to launch regional language versions of our site and these have got a tremendous re-

sponse from our audiences. Currently, the site is available in English, Hindi and Tamil. Four new languages – Kannada, Telugu, Bengali and Marathi – will be added over the next few months," the spokesperson says.

Just like private companies, the government, too, is interested in converting its websites into Indian languages. Pune-based LinguaNext is helping many public sector banks make this transition. The company's products translate enterprise applications into many languages. "Government banks and PSUs want to implement customer-facing websites in regional languages urgently," says Jagdish Sahasrabudhe, CEO of LinguaNext. The company was founded in 2010 and counts State Bank of India and Punjab National Bank among its customers. "We are being asked to execute projects in a matter of months," he adds.

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NILOTPAL BARIK

The Pani brothers founded **Reverie** five years ago. The Bangalore company's platform enables Indian language fonts, keypads with predictive input capability, as well as transliteration on mobile devices

The Content Puzzle

While technology companies are working hard at getting the access and interface right – among established companies, Google is releasing a Hindi version of voice search – content companies and aggregators are busy building the content. Ver Se Innovation has been the talk of the town for a few months now. “We want to be the first point of Internet access in Indian languages,” says Gupta, its founder. Newshunt, its news app, aggregates content in 13 languages from many publishers. “We have 17 million active users on Newshunt a month and 1.7 billion page views,” he says, talking of demand for local news on the Internet.

Ver Se, in February 2014, launched a regional e-book app that has seen downloads of 10 million books so far. “We have both free and paid books. At times, we unbundle

the book and sell it by chapters,” says Gupta. The average price is between ₹30 and ₹40. Founded in 2007, the company appears to be one of the biggest companies in the sector by revenue. “We started as a value-added services (VAS) provider to mobile operators. We have revenues of \$10 million a year, 40 to 50 per cent coming from VAS,” says Gupta.

Among other companies in the content game is Webdunia and HinKhoj, a Jaipur-based company that runs a crowd-sourced Hindi dictionary app. “Fifty lakh people have downloaded the dictionary on Android,” says Udai Singh, Founder of HinKhoj. While HinKhoj is not a commercial venture, Webdunia is. It is also one of the oldest in the business – it was launched in September 1999, barely a year after Google – and survived the dotcom crash. It was ahead of its times. By 2000,

Webdunia had already created phonetic keyboards, multilingual chat and mail solutions, and even a search engine in Hindi, Tamil, Kannada, Telugu and Malayalam. However, it ran into the familiar barriers of Internet connection speeds and reach – there were no smartphones back then while PC penetration was poor. The company now runs content portals and apps in seven languages focused on “A, B, C, H and L” – astrology, Bollywood, cricket, health and lifestyle. All the portals combined generate eight million unique visitors a month, the company says.

While the content available in Indian languages on the web is hardly enough to satisfy the growing demand of Internet users, companies seem to have at least made a good beginning. ♦

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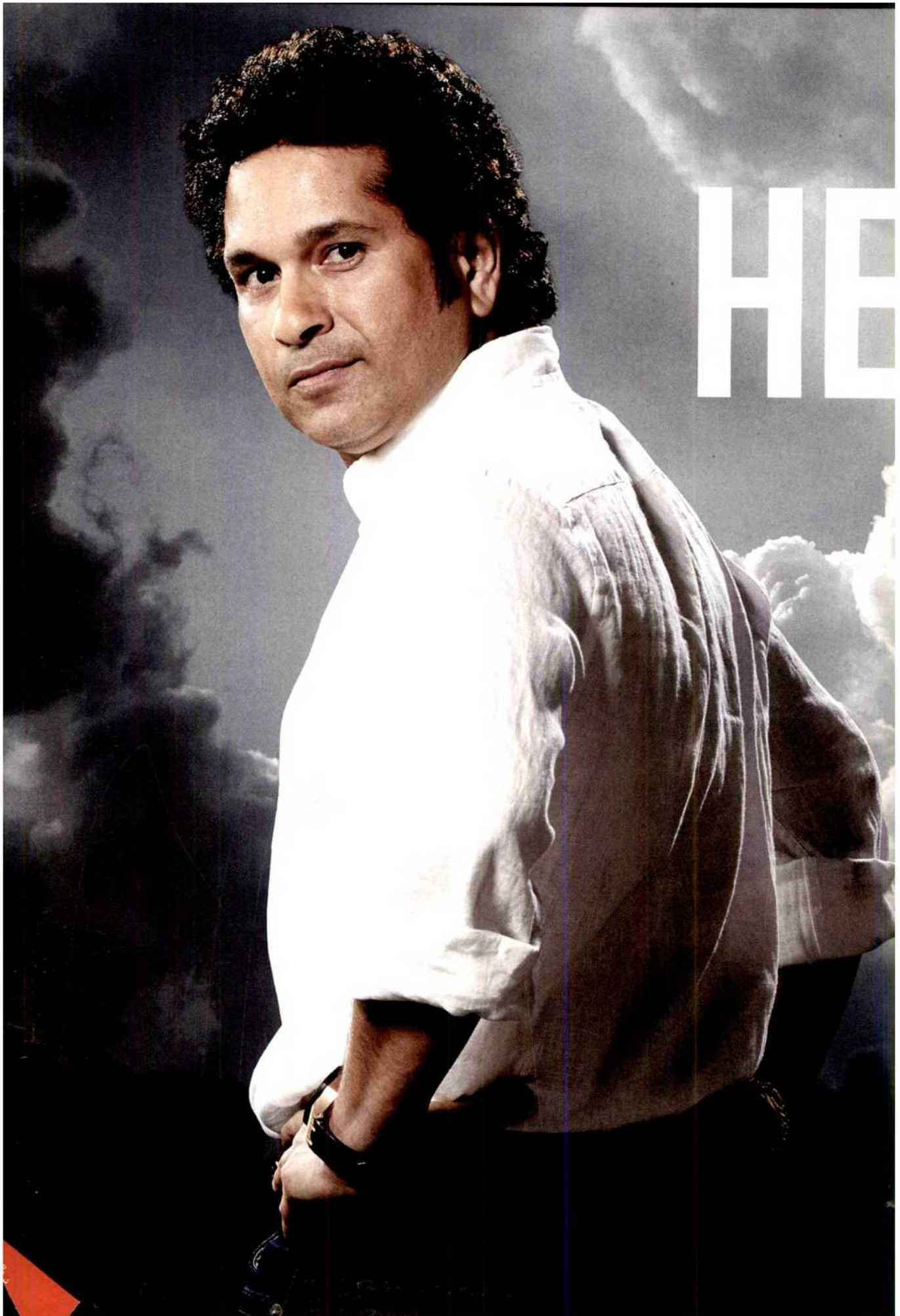


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Unique offering: Tapan Kumar Das at the iTiffin kitchen in Bengaluru

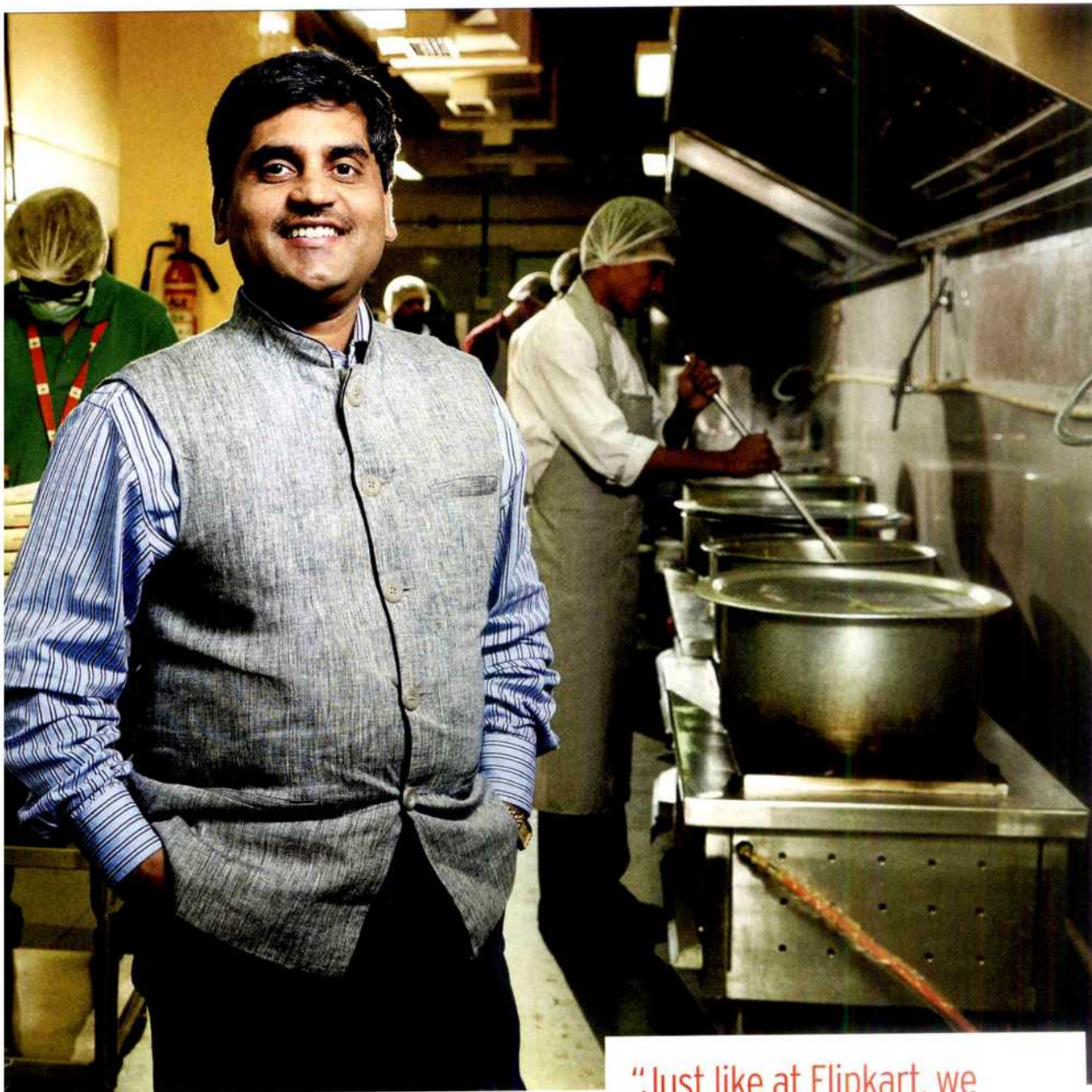
In January 2012, national cricketer Robin Uthappa had faced a dilemma. Due to constant travel, he ate unhealthy meals and that had wrecked his fitness. He couldn't shed weight despite a rigorous training schedule, thus affecting his performance on the field. It was then that his friend advised him to check out a company Qua Nutrition launched by a nutritionist and a former CFO of e-commerce major Flipkart.

The high-end nutrition consultancy was started by Ryan Fernando, a nutritionist, and Tapan Kumar Das, an IIM-A alumnus, who has worked with many start-ups. Uthappa says in 18 months he lost 20 kg. "From 94 kg, I dropped to 74 kg. More important than the weight loss was that I felt energetic throughout the day. Even after a full

day on the field, I could carry on effortlessly. That's when I realised that eating right was the key to feeling good," he says. The company has worked with the likes of Olympic games medallist Sushil Kumar, cricketers Shikhar Dhawan, Pragyan Ojha, golf star Sharmila Nicollet apart from a host of celebrities and senior industry executives. However, not all can afford a full-time nutritionist. But Uthappa was so enthused by the outcome of his own efforts to live healthily, that he decided to help fund a start-up, which would deliver "affordable nutrition-based wellness".

He invested ₹1.5 crore and iTiffin started taking shape. A few angel investors put in small sums and ₹6 crore came from a large spice exporting company, which did not want to be identified. After raising ₹8 crore, iTiffin started out in June 2013 and became fully operational by October 2013.

Currently operational only in Bengaluru, it functions



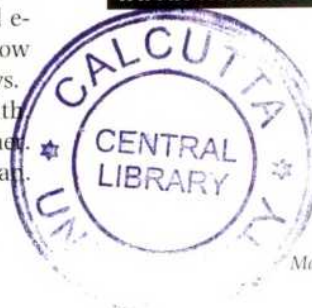
NITOPAL BARUAH

out of a 10,000-sq-foot hub at Whitefield. Tapan Das, co-founder, is at pains to distinguish the company from the neighbourhood, "home-cooked food, delivered-in-a-box-meal" kind of player. "Depending on individual needs, we plan calorie-defined meals for all. There are customised plans for diabetics, senior citizens, those with high blood pressure and other ailments," he says.

Tapan has been a part of the start-up teams of companies like Health & Glow, Indian Terrain, YLG and Flipkart. "In my 15 years in the industry, I have worked with everything from retail, logistics, fashion industry, and e-commerce. I understand what start-ups require and how they can succeed by addressing a market need," he says. iTiffin insists that people sign up for at least a month. Currently, they deliver meals only for lunch and dinner. A typical meal plan costs ₹1,800 for five-day-week plan.

"Just like at Flipkart, we realised that logistics was key to our success. We have a huge centralised kitchen and we are also developing a hub-and-spoke model"

TAPAN KUMAR DAS, Co-founder, iTiffin



"While several of the ideas might seem commonplace, what iTiffin ensures is that eating healthy is not difficult," he says. Similarly for senior citizens, the meal mix is different taking into account their metabolism and calorie requirements.

A typical iTiffin meal has one bowl of salad, a serving of brown rice, two small servings of sabzi and a chapatti packed in disposable containers. For non-vegetarians, they also have customised meal plans depending on one's requirements. Right now iTiffin says it has 2,000 customers for its lunch and dinner plans.

Customer Base

The target customer is not the next-door bachelor working at a tech firm. Meet Sidde Gowda, a real estate consultant, and his wife Shreya who runs her own garment retail shop. They have signed up for iTiffin's service for dinner. "Both of us lead hectic lives and dinner is the only meal we have together. So we first tried having a cook. But somebody has to stay at home, monitor them and after a few small things went missing, we decided to move on. We tried the local neighbourhood food deliverer. While the food was tasty, prices competitive and delivery on time, we realised it was too oily and was being made in less than hygienic conditions," says Shreya.

However, Gowda says while the iTiffin food is healthy, it is a little bland for South Indian taste buds and delivery invariably gets delayed at least a couple of occasions in a week. "I stay in BTM Layout and by the time food reaches me at 8 p.m., more often than not it is lukewarm. They need to improve logistics," he says.

Das says that while the problem is not uncommon, the company is addressing it. "Just like at Flipkart we realised that logistics was key to our success, we have done that here, too. We have a huge centralised kitchen right now to ensure quality. We are also developing a hub-and-spoke model. Food, unlike most e-commerce items, is perishable and Bengaluru's notorious traffic poses the same challenge," he says.

iTiffin has set up its first distribution centre at Indiranagar, a suburb. Das says that the company, which has been operational for five quarters, is experimenting with multiple models to ensure customer satisfaction. Right now it is even selling take-aways from this centre. He says eventually the company will examine having multiple kitchens in the city. "Our current facility is built to cater to 20,000 meals at a time. We are utilising just



"I am considering investing in the next round... We are a young country but we need to be a healthy one, too"

ROBIN UTHAPPA, Cricketer

10 per cent of that. So we are stressing on improving delivery mechanisms."

The company has also started delivering snack boxes to schoolchildren in the city. "We are already delivering snacks to 200 schoolkids in two schools and once we iron out all issues, we will scale this up." By March, it plans to roll out its snack boxes across the country. "It will have finger food, energy bar, health drink, Indian *namkeens*. The difference will be that it is portion-controlled, non-fried and will deliver the right amount of protein, iron, calcium and fat depending on a child's age and requirements," Das says. The snack boxes are priced at ₹100 a day.

iTiffin is earning ₹3 crore a year and is now looking to enter Mumbai, Delhi, Chennai and Kolkata in the next 12 months. "For this we are looking to raise around \$6 million. Operationally, we have been profitable from day one," he says. The company is aiming at a turnover of ₹30 crore by March 2017.

Uthappa for one seems to be happy at the growth of iTiffin. "I am considering investing in the next round along with other investors. While we are young country, we need to be a healthy one, too," he says. There are a few other players also in this nascent segment, like Nutritown in Bengaluru and Calorie Care in Mumbai. However, Das says that iTiffin with its emphasis on customised plans, affordability and logistics will triumph over competition. ♦

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₹30cr

iTiffin's
revenue goal
by March 2017

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Integrating Tax Savings With Your Financial Plan

It's the last leg of tax savings and everyone must be scrambling to maximise their tax savings. This year, the limit of deductions has gone by 50 per cent to touch Rs 1.5 lakh to be claimed as tax deduction under Section 80C. This is an opportunity to best utilise the additional sum to not only maximise the tax benefits but also to explore possibilities of using the money to best fit into your overall financial plan.

First thing first, as most Indians are under insured, this is one opportunity to take adequate life insurance, if you are under insured. Next, check your existing financial goals such as children's education and your own retirement besides others. Try to match the best fit financial products to achieve these goals along with tax savings. Considering the wide variety of available instruments to save on taxes,

you can consider from low risk products like the 5-year bank FD to the equity linked savings scheme which is the only instrument with a fairly high equity exposure.

Considering the variety of products, you can pick one based on your comfort to risk and the time frame you have in mind. For instance, the PPF comes with a 16-year lock in, whereas the ELSS has the shortest lock in of three years. What this leaves you with is the comfort of selecting products based on your financial goals. So, if retirement is something in your mind, you can invest in the ELSS or the NPS or any of the retirement plans offered by life insurers and mutual funds. This way, you can not only plan your finances, you can also mix and match tax saving instruments to save tax and benefit.



New India Insurance company, a fully India owned insurance company was established by Sir Dorabji Tata 1919. A pioneer among the Indian Companies on various fronts, right from insuring the first domestic airlines to satellite

insurance, New India offers a wide range of policies with product and services offered across the lines of personal, commercial, industrial, aviation, marine, liability, social, rural and credit insurance. Hence suiting needs of individuals as well as institutions across the spectrum. It is also India's largest non-life insurance company and also one of the leading insurers in the Afro-Asian region. Infact it is the first domestic company to be rated by an International Rating Agency wherein the rating is based on factors like superior capital strength, strong operating performance and dominant market position. Today, NIA boasts of operation in over 22 countries with an overseas premium of USD 461 million in the year 2013 -14, which accounts for more than 19.31% of total premium in India.

New Indian Assurance Company's dominance can be witnessed in the recent numbers announced by the company, wherein it's Profit After Tax (PAT) for the 3rd Quarter of 2015 went up by 42% to Rs 996 cr as against the corresponding figure in the previous year of rs 701 cr and Rs Rs 1088 cr as on year ended March 2014. The steep increase in PAT can be attributed to better

management of claims and increased growth in premium. The non life insurer has been growing its market share month on month, with it's premium growing well ahead of the market at 14.91% to touch Rs 9,580 cr as compared to Rs 8,337 cr at the end of December 2013. While the global business of this multinational insurer grew by 13.34% as the volumes touched Rs 11,181 cr as against Rs 9,865 cr for the corresponding quarter last year. Further, it is well on its way to meet the global business target of Rs 16,000 cr at the end of march 2015

From a consumer perspective the non life insurer boasts of the lowest management expenses ratios in the industry, which could further be reduced to 21.09% from 21.55% (at the end of Q3 2014). The improved growth in business, control on combined ratio and improved investment performance saw New India Assurance recording higher profits for many quarters in a row.

"Although the catastrophes of Hud Hud & J&K flood marginally increased the incurred loss ratio, the overall performance of the company saw very good improvement through better efficiencies and higher growth", said Mr. Srinivasan, Chairman & MD, New India Assurance. New India assurance has been actively contribution to prime ministers Jan Dhan Yojana, by aligning with SSAs to bring in business through micro insurance agents & BCs. Towards this effort the company is constructing 100 toilets in UP schools joining the Prime Ministers Swachh Vidyalaya campaign.

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The GLA stands in front of the St. Basil's cathedral in Moscow, Russia. It is one of the most photographed monuments on earth and it left us with our jaws dropped to the ground



FROM GERMANY TO INDIA AN EPIC DRIVE

In a first ever attempt, we drive the Mercedes-Benz GLA from the company's headquarters in Stuttgart, Germany to its centre of excellence in Pune, India

We at AUTO BILD INDIA love to do things that have never been done before. And this time around, we took the smallest SUV from the stables of Mercedes-Benz, the lively GLA and drove the same over 17,800km across Europe and Asia. We started from Germany, then took the car through Czech

Republic, Poland, Lithuania, Latvia, Russia, Kazakhstan, Kyrgyzstan, China and Nepal, on our way to Mercedes' centre of excellence in Pune, India. What turned up the difficulty by a few notches was our timing. The European, Russian and the Asian winters were not exactly kind, neither to the cars nor the crew. There were

trials and tribulations but the persevering lot that we are, we did it and how! To know more about the epic drive that we undertook and to re-live the sights and sounds of so many countries, culture and people, stay tuned to the future issues of Business Today and/or logon to www.indiatoday.intoday.in/auto.



(above) Ola Kallenius, executive VP, sales and marketing, Mercedes-Benz, flagging off the drive from the company headquarters in Stuttgart, Germany. The crew consisted of Yogendra Pratap, Vitoldas Milius, Sirish Chandran, Rahul Ghosh, Parmender Sharma, Himanshu Sharma, Gaurav Thombre, Kshitij Sharma and Kingshuk Dutta. (right) The Mercedes-Benz GLA posing at the palace square in St. Petersburg, Russia



The GLA on the banks of the Volga (above), at Nizhny Novogorod, Russia. The Volga is highly revered and is one of the most important rivers in Russia. The route took us to the edge of Siberia and through some of the harshest terrain on earth (right)



The Art of Creating a Superfast Company

Management thinker **Jason Jennings**, in an interview with **Chitra Narayanan**, describes what companies need to do to flourish in a nanosecond culture.

Do small companies have an advantage in the race to be fast?

Size has nothing to do with being fast or slow. By the time the companies have been fortunate enough to survive and become large, almost all have lost touch with their original, clearly defined sense of purpose and guiding principles. Generally, both the original sense of purpose of doing well by doing good and the guiding principles have been replaced with slow moving bureaucracies.

But, when everyone in an organisation – large or small – knows and buys into the purpose of the company and knows, understands and is empowered to act in accordance with the guiding principles, speed occurs naturally. I'll bet any amount of money that if you asked the CEOs of Amazon, Google and Apple if they could name their company's guiding principles they'd look at you like you just fell off the back of a turnip truck and would respond with an incredulous: "How in the hell can anyone hope to lead a company if they don't know its guiding principles?"

Sadly, of the over 200,000 companies we've screened and studied in the past decade, the CEOs of fewer than two-dozen were able to recite their own companies' guiding principles. Ergo, their companies had none and each decision had to be laboriously discussed, debated and pondered to death.

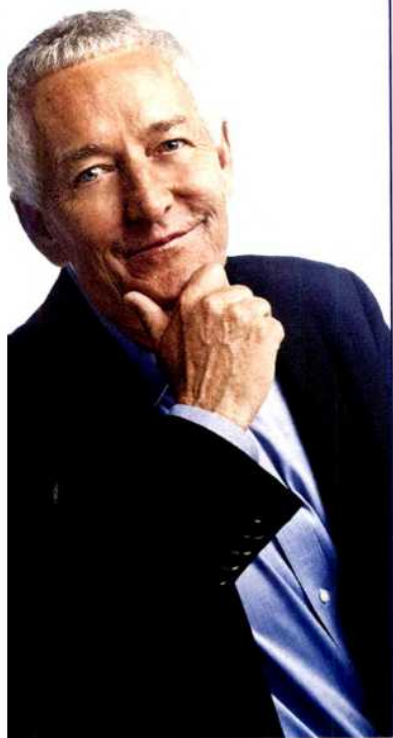
Even if a company is ahead of the competition today, the customer is often faster. How do companies stay ahead of the ever-changing customer?

There's only one way to stay ahead of customers. Everyone, at every level of the organisation – from the CEO down to the shop floor – needs to be in constant dialogue with the customers asking the questions: "Tell me your story, tell me your hopes, aspirations and dreams for you and your family?" "Tell me your fears and what keeps you awake at night?" "What itch do you have that we can scratch and what pain points do you have that we can possibly make better?"

There's no better example of a company where everyone listens to the cus-

tomers than P&G. They've been around for 180 years, have generated trillions in revenues and hundreds of billions in profits and are on track to have more than five billion customers worldwide in the near future. At every offsite the company conducts – and it's in thousands each year – the business is conducted in the morning and the afternoon is spent calling on the stores who sell their products and the consumers who have the ability to purchase them and everyone, from CEO A.G. Lafley down, takes part in these house calls and meetings. The purpose of the meetings isn't to sell the company's products but to learn about people, gain insights into how they live, what they dream, and the hopes they have for their families. The typical top leadership of most companies would tremble in their boots before they'd ever put themselves into the position of having to actually go out, spend time in their customer's home and talk to people.

In your book, in the chapter on stewardship, you talk about the no-negativity trait that



Jason Jennings is an authority on leadership, growth and innovation, and the author of the soon-to-be-released *The High Speed Company*.

leads to success, though you do mention a screaming Gordon Ramsay. But can successful stewards be both Mr Nice as well as demanding and irascible?

I hope when people read about the screaming Gordon Ramsay in my book, they don't think I was holding him up in a positive light. I find his behaviour most offensive and objectionable. It's our finding that great stewards are, by their very nature, compassionate and caring, challenging and also demanding, and very impatient. If you're trying to do the right thing and improve everything for five different constituencies simultaneously you would of necessity be driven and impatient. Who would be willing to be slow if you're doing what you consider to be the most important work in the world? Good stewards are, of course, impatient and demanding but not irascible. Irascible is defined as being hot tempered for the sake of being hot tempered.

Does the age of workforce matter when it comes to speed of decision and delivery? Is a tech start-up with digital natives more attuned to fast decisions?

I love being around digital natives and agree they have a better grasp of all things digital than digital orphans – and possibly a little more physical energy as well. Show me a group of people who know, believe and share a singular purpose; who know and are empow-

ered to act in accordance with the same set of guiding principles; where everyone is committed to never vio-



FIVE TRAITS OF HIGH SPEED COMPANIES

A culture based on doing well by doing good

A set of guiding principles practiced by all employees

A cult of transparency which leads to real accountability

Effective bottoms up communication

Being good stewards committed to making everything better

lating the immutable law of suckage when it comes to the customer; where everything possible has been systematised so the focus can be on growth; where the prosperity of all team members is ever present in the minds and the actions of the leadership; where the organisation is committed to doing well by doing good; and I'll show you a truly high-speed company regardless of the team's age.

Are service companies usually faster than product companies?

It's an excuse used by some product-based companies to try and justify why they're

so slow. An example is H&M where they can go from a design on a drawing board to in store display worldwide within three weeks. Any company that applies the principles described in the book to their supply chain can dramatically reduce the time to market.

Can being fast prove to be more expensive for companies since there might be more mistakes?

Truly high-speed companies are committed to making many small bets and each doesn't have to be a winner. When Howard Schultz returned as CEO of Starbucks, the company had fallen on hard times. Revenues had declined by a couple of billion dollars to less than \$10 billion and the pundits were proclaiming that both Starbucks and coffee had become passé.

Schultz made a renewed commitment to the original sense of purpose and guiding principles and embarked on a path of making many small bets. During an 18-month period, the company made 150 small bets. Most weren't successful. But all it took were a handful: Starbucks Petites (their dessert line), Via instant coffee, wine and beer testing, the renovation of their stores, the introduction of oatmeal, a few strategic acquisitions to bolster their tea, fruit juice and food offerings. Today you have a company firing on all cylinders, a footprint of 19,000 locations worldwide, on track to \$20 billion in annual revenues and a 20 per cent operating margin.

Are companies from certain regions culturally prone to taking measured elephant-like steps, while others (China) are dragon-like geared for speed?

Yes, there are regional, geographical and cultural differences that prevent companies from being high-speed enterprises. You cannot achieve and maintain velocity until you rid the organisation of bureaucracy (which neither creates nor adds any value), blow up long entrenched silos, create cultures of transparency which results in true accountability, create a culture of making lots of small bets (all of which don't have to succeed), and have a leadership in place that's committed to the prosperity of every worker. Ultimately you make the shareholder number one by making them last; behind the workers and the customers.

Have you studied any Indian companies and if so, which one in your view is geared for creating urgency?

Despite a planned merger that would have made the company the seventh-largest tyre maker in the world not going through, my bets are still on Apollo Tyres and my friend and colleague Neeraj Kanwar, its Managing Director. He truly gets the need for a single unified culture, understands it can only be achieved through a set of guiding principles shared by everyone and they are doing some very exciting work in that area. ♦

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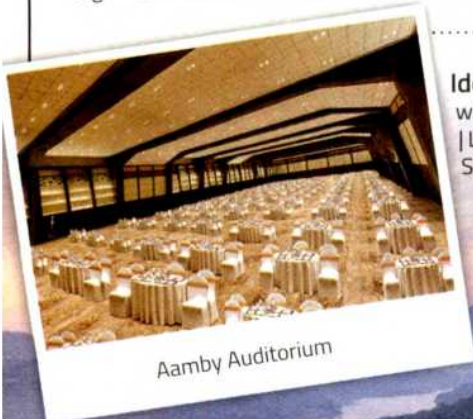
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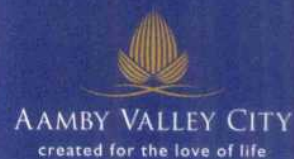
Panaromic view of the city



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Milstein Hall of Ocean Life



Barclay's Centre



New York City

New York City is a one-of-a-kind destination for leisure and MICE, known for its unrivaled dining, arts, culture and tours, making it an appealing destination for meeting delegates from around the globe. New York City's ever-changing and diverse product ensures that meetings and groups of all sizes can find something to enjoy, in accordance with a wide variety of preferences. From meetings held in exclusive locations to one-of-a-kind interactive group activities, the City offers an all-encompassing special experience for MICE travelers. Some of the unique venues include The Metropolitan Museum of Art, American Museum of Natural History, Empire State Building, Barclay's Centre and Madison Square Garden etc

NYC & Company, the City's official marketing, tourism and partnership organization, recently launched a 2015 New York City Delegate Discount Pass this year offering exclusive savings throughout the year at more than 70 restaurants, tours, attractions and retailers.

Oman

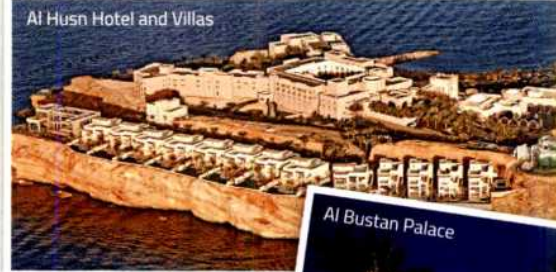
Oman offers an authentic Arabian experience in terms of culture and scenic beauty. It has a state-of-art infrastructure and a beautiful communion of old and modern. To complement MICE facilities, Oman is also known for its array of tourist activities on offer such as water sports, dune bashing, trekking, dolphin and turtle watching and shopping in the souks. The country also features historic forts, castles, museums and an opera house which are among the many cultural landmarks that give the country its unique character. Excellent air connectivity and geographical proximity with India makes Oman a perfect choice for a MICE/Incentive Travel.

SOME MICE VENUES IN OMAN:

Grand Hyatt: The hotel is perfect for both business and leisure pursuits and is one of the largest and most opulent luxury hotels Muscat has to offer, with 280 stylishly appointed hotel rooms & suites, with a remarkable Arabian style interior design. It has 5 meeting rooms with maximum capacity of 400 persons.

Al Bustan Palace, A Ritz Carlton Hotel: As one of the premier Muscat business hotels, Al Bustan Palace ensures each and every conference is like no other with an impeccable service and elegant surroundings and boasts of a beautiful 1,204-square-metre Majan ballroom.

Al Husn Hotel and Villas



Al Bustan Palace



Toronto, Canada

Toronto has a very capable infrastructure with strong accommodation capacity as well as modern, well equipped conference venues. Apart from this, the city is also home to some of the iconic Canadian attractions making it best suited for MICE trips. MICE groups can choose from a variety of event venues, lodging options and restaurants serving Indian food.

Union Station

Union Station, Canada's busiest passenger transportation hub, is undergoing a renovation that will largely finish by this summer to accommodate crowds for the Pan Am Games. It will include expanded transit concourses as well as a restoration and preservation of the station's heritage elements including three event spaces: the Great Hall (14,000 square feet), the West Wing (4,000 square feet), and the East and West Carriageways.

Union Station



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ICE FLYER CHAIR LIFT

Float safely over the glacier crevasses

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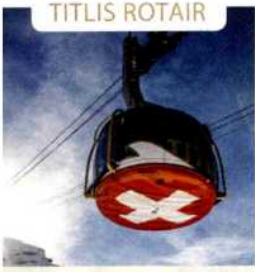
Enjoy the thrills of a microscooter, balancer, boogie board or classic snow tube

UNIQUE PANORAMA

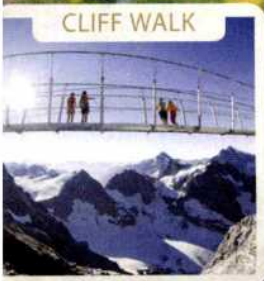
Breathtaking view from the sun terrace or the wind-protected panorama lounge

INDIAN SNACKS, LUNCHES AND DINNERS

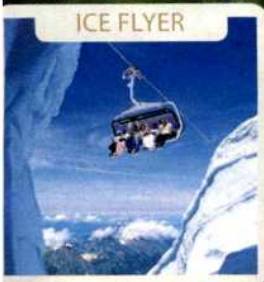
TITLIS ROTAIR



CLIFF WALK



ICE FLYER



GLACIER PARK



HOTEL TERRACE



THE BIG PICTURE



Investing in a projector over
a big-screen TV for the same
cost is a wise idea.

By NIDHI SINGAL

I

It's World Cup cricket season and time for community viewing on large screens. Given a choice between watching the finals on a 40-inch TV or an 80-inch projection, which would you prefer? Especially, if cost wise, it's advantage projector! It's a no contest, really then. A 40 to 42-inch LED TV from Samsung, Sony or LG will not cost anywhere less than ₹40,000, whereas a home entertainment projector might cost less and will offer a bigger projection area.

Gone are the days when projectors were meant for professional use and used to cost a bomb. Suddenly, the market is flooded with trendy home projectors and portable projectors that make TVs look old fashioned. You can now buy a projector for less than ₹30,000 (though these won't

have the latest high-end features) that will be capable of projecting up to 100 inches while your TV screen size remains fixed. Another problem with the TV screen is its restricted viewing angle, which isn't the case with projectors. And if you are going with a portable projector, you need not mount it to the ceiling. Projectors are available in different resolutions – 800x600; HD, Full HD and even 4K. While 4K projectors are very few and super expensive, a good HD or a Full HD 3D projector is a good bet.

Of course, it's not a rosy picture all the way. Projectors do have drawbacks. The biggest is the sound output. Projectors don't have a powerful sound and you will have to plug in a compact speaker or a full-blown surround sound speaker. But installing one will definitely enhance the experience to a great extent. Second, ambient light could cast a shadow on your viewing experience. So you will have to make sure that the room is dark for better projection. And finally, all projectors throw heat.

Buying and setting up a home projector:

Before you buy a projector, there are many things you need to consider. Which technology to go for, how big should be the room, whether to pick a portable one or install one on the ceiling, connectivity options and so on. Here are a few things that you should keep in mind before buying one.



DLP, LCD or LED projector: Similar to the various technologies in televisions –

plasma, LCD and LED – you have different technologies in projectors too. The DLP (Digital Light Processing) projector has a chip made of tiny microscopic mirrors and a spinning colour wheel that projects sharp images. LCD projectors use liquid crystal display with no moving parts. These offer better saturation, lower noise and cost less. LED projectors use tiny light emitting diodes for

projecting better colours and have a lifespan of over 20,000 hours making them a zero maintenance machine. LED projectors are usually small and compact but lack the LCD or a DLP's brightness.



Pocket projector or home projector?

You can go for a big home projector that you will have to mount on the ceiling or you can go for a compact pocket projector that you can place anywhere in the house. The latter is also referred to as a Pico projector and is usually LED-based. Most of these projectors are good enough to project up to 100 inches and work well in a dark room.



Projection size and viewing distance:

Be it a TV or a projector, the size is measured diagonally. So decide the projection size you are looking at. You also need to keep in mind the distance between the projector and the projection screen/wall. A simple way to understand these calculations: Throwdistancecalculator.com. While watching content using a projector, one should sit at a distance of at least twice the image width.



Wall or screen:

You might have spotted projection screens at restaurants and meeting rooms for projecting content but for your home, a plain white wall works best.



Connectivity:

Projectors offer many connectivity options, just like TVs, i.e., VGA, AVI, HDMI ports along with USB for plugging and playing content.



Sound: Install a home theatre or speakers to maximise a projector's immersive experience.

THE BEST PICKS...

While you can get your hands on one for as low as ₹25,000, this is a one-time investment, so it's better to go for a product that doesn't get outdated soon. Here are some recommendations. By NIDHI SINGAL



Portronics iLume 500

The best portable projector in town, the Portronics iLume is a compact projector with a 500 ANSI lumens LED lamp. Good enough to project in a dark room, it can be easily used as a short throw projector as well as it can project between 15 and 120 inches. It comes with an SD card slot, HDMI port, VGA port, USB and AV port and is accompanied with a remote control too. The sound output isn't loud as it has got a three-watt speaker. However, it works amazingly well as a personal home theatre.

PRICE: ₹45,000

Hitachi CP DH 300

This is a full HD 3D projector with 3000 ANSI lumens lamp, which has a lamp life of 4,000 hours. This also acts as a short throw projector and a full blown one as it is capable of projection starting from up to 30 to 300 inches without compromising on the projection quality. Easy to set-up, it has connectivity options, including HDMI, two VGA ports, monitor out, video in. There isn't any USB port for playing content directly from pen drive. The 3D content playback is superb.

PRICE: ₹1,04,000



BenQ W750

Known for its projectors, the BenQ W750 is an affordable 3D video projector with native 720p resolution. It is capable of projecting 43 to 300 inches (diagonally) and has got a host of connectivity options. Based on DLP technology, it has 2500 lumens brightness and 6,500 hours of run time.

PRICE: ₹54,000



GOOGLE'S GIANT LEAP

In the battle of the plus size phones, and pitted head-to-head against Samsung Galaxy Note 4, the Nexus 6 is a great deal. By NIDHI SINGAL

Nexus 6 is Google's giant screen play for which the global search giant has worked with Motorola. No wonder its design looks identical to Motorola's Moto X 2nd generation. The Nexus 6 has got a six-inch quad HD display with 1440x2560 pixel resolution and 493 pixel per inch density. Everything seemed bright and crisp on its screen. There is an aluminium frame running around the edges. The rear panel is a busy one – it has the camera lens with a circular LED flash followed by Motorola's M logo and Nexus branding. The rear panel is non-removable and the SIM slot is placed on the top. The Nexus 6 has been designed in such a way that it doesn't feel too broad or heavy (at 184 grams). While I could navigate through it using one hand, I feared dropping it.

It packs in the latest high-end specifications: 2.7 GHz quad-core processor built on Qualcomm's Snapdragon S805 chipset, paired with 3 GB of RAM. This is good enough for the phone to multitask with ease and handle heavy graphic games and multi-tab browsing. The text appears crisp and clear, which enhances the reading experience. Running on

Android Lollipop, the interface looks different and refreshing. So do the icons. From the lock screen itself, I was able to launch the dial pad or the camera app. Swiping down the notification bar gives access to instant settings and also shows battery percentage, settings icon and user profile icon. Entering the guest mode allows you to lock down private data such as photographs. More profiles can be added to the phone. There are three folders on the home screen – Google, Create and Play. The capacitive keys for home, back and multitasking have got geometrical designs: circle, triangle, and square, respectively.

The 13 MP camera with dual LED flash in the ring works well. You will need some time to get the hang of the camera interface. The camera locked the focus instantly and the still images were good. My review unit had 32 GB internal storage, of which 25.98 GB was user accessible. But it doesn't support expandable memory card. The Nexus 6 lasted me a day on a single charge when used carefully. But it did heat up when used for heavy graphic apps for longer duration. ♦

BAG IT OR JUNK IT:

A solid piece of hardware with Google's latest Lollipop operating system

RATING: 4/5

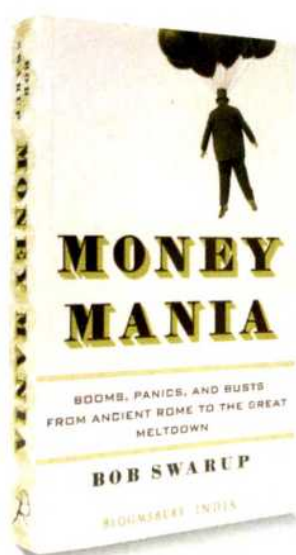
PLUS: Display, design, price

MINUS: Heats up, bulky

@nidhisigal

Pitfalls of Collective Speculation

The book, through past financial failures, looks deep into the nature of human behaviour. By MADAN SABNAVIS



Money Mania

By Bob Swarup

PAGES: 310

PRICE: ₹499

Bloomsbury India

Swarup gives several examples to support his theory of speculative activity fostered by groupthink

The global financial crisis that erupted in 2007 is perhaps remarkable for generating the largest number of books by authors with the wisdom of hindsight. Bob Swarup in *Money Mania* takes a different approach as he narrates financial crises down the ages. He traces similar patterns in each occurrence, with human behaviour playing a key role.

The commonality is the position of fallacy wherein we wrongly interpret up-swings as high and sustainable development, oblivious that there are seeds of crisis already sown. Even when we have our own models to guide our future investments, we prefer to go with the majority, which in turn becomes self-fulfilling when a crisis strikes and affects all.

Such crises have been there since Roman times. There has always been an urge to spend in a big way and build empires through borrowing. They crumble when there are wars, which was the case when Sparta attacked ancient Greece. More recently, Japan was obsessed with growth. It took the nation to large-scale speculation in land, which eventually led to a crisis in the 1980s. The Great Depression showed us how an unsustainable model based on higher spending and borrowing after World War I ended up in a stock market crash.

Almost all growth stories have strong traces of financial speculation. Swarup clinically analyses this persistent seduction of our senses by new opportunities, leading to a collective belief that this state of bliss will hold forever. In the run up to the latest financial crisis, too, we assumed so. It is the case with real estate, too, where it is assumed that prices will always go up, riding on speculation.

Let us look at what conclusions Swarup draws from the past financial crises. Man is not rational, which is opposite of what all theories in economics assume. We are motivated by self-interest and influenced by our cognitive biases. Furthermore, our actions do not add up laterally but cascade exponentially making interpretation of human behaviour complex. Therefore, the whole is not the sum of all parts. Also, economies are not isolated entities in a static equilibrium. They are dynamic and interwoven with political and social dimensions. Above all, efficient markets do not exist as information is contextual and asymmetries exist making free markets an idealistic limiting case.

He gives several examples to support his theory of speculative activity fostered by groupthink. One of the more interesting ones is on how the market for tulips developed in the Netherlands gave shape to the futures market, which eventually led to excess speculation and crash.

A thought expressed here which should tickle our brains is that we do always find reasons for a crisis and say that it could have been avoided if certain things were done. There is hence a tendency to pontificate especially by the regulator, which is a false belief.

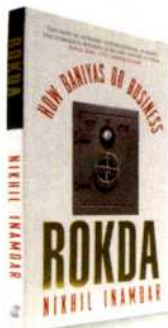
The book is a historical work and an interesting read. But it is difficult to read as the narrative is not chronological; chapters do not flow from one to another. The reader has to connect them and in a way it adds charm to the book. ♦

The author is Chief Economist at CARE Ratings.

All About Baniya Chromosome

What defines a community that has given India its biggest entrepreneurs? *Rokda* finds out.

By ASHISH AGGARWAL



Rokda: How Baniyas do Business

By Nikhil Inamdar

PAGES: 256

PRICE: ₹199

Random House

Don't let the title *Rokda* screaming in shiny gold distract you. Nikhil Inamdar's first book brings alive the entrepreneurial journey of five *baniyas* and how they built businesses as diverse as Meru Cabs, Emami, Snapdeal, Hindware and Bansal Classes.

Having grown up on business nuggets of Richard Branson and Jack Welch, my curiosity was aroused just by the catch-line – *How Baniyas Do Business*.

Inamdar gives you a 10,000-feet view and then also glides down to make sure you get the ground feel as you move from the journey of Neeraj Gupta of Meru Cabs, who began in 1998, to the Radheshyam duo who started 30 years earlier and are now aiming to grow Emami's market cap to ₹30,000 crore, quite a step up from ₹20,000 in 1968.

Inamdar's account of Rohit Bansal's business journey from 2007, with its share of tumbles, eventually taking the shape of Snapdeal.com is inspiring. The boy from Malout, Punjab, quit his job to work for himself. Well, Rohit is not the only *baniya* in the e-commerce limelight today and that highlights the evolution of the entrepreneurial zeal in the community.

The book is candid, unpretentious and shorn of jargon. Easy to read, it captures the failures, key events and decisions that shaped these entrepreneurs.

Inamdar takes us to 1950s where a young R.K. Somany began creating a sanitary ware business, which would blend with the social commitment of a young India. From a 24-year-old learning shop floor work in England's industrial dump at Twyford's plant in Stoke-on-Trent to a sprightly 77-year-old clocking an 18-hour day, Somany's journey to build Hindware as India's largest sanitary ware company is equally insightful. *Baniya*, as Inamdar explains, is a loose term which refers to the corner shopkeeper, the calculating moneylender or the Marwari businessman next door. The connotation is often negative, but it simply means trader or merchant.

The book has no sermons on how *baniyas* do business. What comes through is the gut for risk, high-trust culture in joint families, friends and community support, their amazing ability to adapt and their penchant for keeping a close tab on costs – stereotypes that one easily associates with *baniyas*. However, the episode of V.K. Bansal, who overcame physical challenges and went on to set up Bansal Classes, is perhaps an exception to that. Grab a copy of the book. ♦

The reviewer co-founded Micro Pension to encourage low-income workers to save for their old age. He is still discovering his *baniya* genes.

Frugal Innovation: How To Do Better With Less

THE FORTNIGHTLY PICK



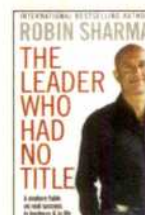
By Navi Radjou and Jaideep Prabhu

Hachette India

Price: ₹599

The book, released on February 15, saw a high amount of reader interest in the preorder phase.

BUSINESS BESTSELLERS*

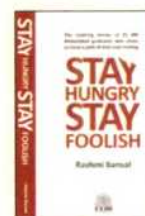


The Leader Who Had No Title

By Robin Sharma

Jaico Publishing

Price: ₹195



Stay Hungry Stay Foolish

By Rashmi Bansal

Westland Books

Price: ₹225



Take Me Home

By Rashmi Bansal

Westland Books

Price: ₹200

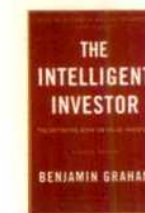


The Small BIG

By Steve Martin, Noah Goldstein, Robert Cialdini

Profile Books

Price: ₹399



The Intelligent Investor

By Benjamin Graham

Harper Business

Price: ₹599

*Top books by sales for Feb 1-16; Information provided by amazon.in

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CAE - Crash
Location: Chennai
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Description: Looking for CAE professionals with expertise in Crash Analysis on Full Vehicle integration using LS-Dyna / PAMCRASH and ANSA. Exp: 9 - 14 Yrs. Quali: B.Tech/M.Tech.



Fujitsu Consulting India Private Limited
Training & Development - Head/ Mgr
Location: Pune
Job ID: 16453664
Description: Looking for candidate with sound background of Learning & Development.



Golden Opportunities Private Limited
GM Site Operations
Location: Chennai
Job ID: 16497733
Description: Good knowledge of Statutory & Legal frameworks. Overall Governance parameters. Process understanding. Management of Shared service centres.



Piramal Enterprises
Manager / Senior Manager (Marketing)
Location: Mumbai
Job ID: 16474823
Description: Good Communication Skills, Negotiation Skills, Knowledge of Export related Activities, Key Account Management, Management of Overseas Offices and Employees.



eBay, Inc
Head-Integration
Location: Mumbai
Job ID: 16459386
Description: Provide integration consultation with major merchants, carts, strategic and channel partners, device manufacturers and financial institutions with PayPal payment solutions.



FrontAhead HR Solutions
Head HRO
Location: Mumbai
Job ID: 16472284
Description: Articulate the HRSS strategy with the aim to achieve business revenue creating a business plan aligned to strategy, conduct market analysis etc.



Jobsplan
Head Quality Assurance
Location: Chennai
Job ID: 16277314
Description: Overall responsibility & accountability of ensuring Quality and environment processes of Chennai factory.



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Director - SAP Practice Head
Location: Mumbai
Job ID: 16500086
Description: Lead operations, project programs of SAP across regional boundaries under respective SAP module.

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Job ID: 16463201
Description: Experience in Verification and Validation of safety critical software for aircraft systems as per DO-178B.



Infogain India Private Limited
Software Engineer-PL/SQL
Location: Noida
Job ID: 16472308
Description: PL-SQL resource with exposure to write and debug SPs, Scripts/SQL Queries, Optimization and Performance profiling.



Capgemini
SAP SD
Location: Bengaluru / Bangalore, Mumbai
Jobs ID: 16494411
Description: Candidate should have hands-on experience on of Sales Processes and knowing : SD Sales, Shipping , Billing , Pricing, Credit Management , Outputs, & Basic Functions.



Syntel Limited
Team Leader/ Technical Leader
Location: Pune
Job ID: 16499231
Description: Minimum 5-6 years IT experience - 3.5+ years of experience in Cognos BI, Database concept.



Hexaware Technologies Limited
Eagle Star Developer
Location: Mumbai, Pune
Job ID: 16210406
Description: Good in Eagle STAR, Oracle PL/SQL, Capable of working independently with demonstrated attention to detail, Hard working and self-motivated, requiring minimum supervision.



Cvent India Private Limited
T-SQL Developer
Location: Gurgaon
Job ID: 13934924
Description: The Database Programmer will work with the technology team to design and build relational databases to meet Cvent's product needs.



EMC Corporation
Solutions Architect
Location: Bengaluru / Bangalore
Job ID: 16497807
Description: At least 2-3 years' experience in web development using PHP, MySQL, Javascript, jquery, ajax, HTML 5, CSS3, XML, JSON.



Perficient India
Oracle EBS Developer
Location: Chennai
Job ID: 16486004
Description: At least 4 years of experience with various Oracle R12 and 11i E-Business Suite modules.

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KRM Global

KRM Global
Marketing Manager/Brand Manager
Location: Bengaluru / Bangalore
Jobs ID: 16301052
Description: Responsible for Marketing planning (TV, Print, Cinema, etc.), Marketing planning, Budget control, Brand building on Digital etc.



NetApp
Sales Representative
Location: Other India (India Delhi)
Job ID: 16497778
Description: Schedule and attend sales call appointments with customers. Other NetApp sales team members may also participate in the sales call to help qualify the opportunity.



Futures Ahead
Business Development Manager
Location: Ahmedabad
Job ID: 16330491
Description: Execute the strategic plans that grow the Company's market share and profitability for the Consumer Manufacturing business segment as well as services of R & D centre.



Quotient Consultancy
Branch Manager
Location: Mumbai
Job ID: 16498625
Description: Managing Team of RM Dealer responsible for revenue generation through trading in respectable account.



Zeeboom Baa Manpower
Showroom Sales Supervisor
Location: Chennai
Job ID: 16499725
Description: Looking for Showroom Sales Supervisor with Min 6 months Experience. Good Communication in English Must.



RS consultants
Sales Executive - Real Estate
Location: Pune
Job ID: 16471343
Description: Looking for candidates with a Strong Sales Background from any industry vertical.



dEEVOiR Consulting Services Private Limited
Executive - Sales
Location: Bhuj, Gandhidham
Job ID: 16499015
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Ikya Human Capital Solutions Private Limited
Accountant
Location: Mumbai
Job ID: 16498071
Description: Looking for fresher's with good communications skills.



2COMS Consulting Private Limited
Accountant
Location: Hyderabad / Secunderabad
Job ID: 16331151
Description: Experience in to Accounts Receivables / Sales Accounting.



Altisource Business Solutions Pvt. Ltd.
Assistant Manager, Financial Reporting
Location: Bengaluru / Bangalore
Job ID: 16455883
Description: Assist in planning, preparation and issuance of Securities and Exchange Commission (SEC) filings, including filings on Forms 10Q, 10K, 8K etc.



Techno Brain
Pricing and Project Accounting Analyst
Location: Bengaluru / Bangalore
Job ID: 16454399
Description: Review Cost Sheets for all the LOBs (Solutions, Training & BPO) within defined timelines.



Exl Service.com India Private Limited
Accounts Payable / Accounts Receivable - Asst. Manager
Location: Bengaluru / Bangalore
Job ID: 16453449
Description: Should process good experience in Accounts payable (invoice processing), Should be good in basic accounts.



Cygnus Staffing Solutions
Accounts Officer / Asst Manager Accounts
Location: Hyderabad / Secunderabad
Job ID: 16377291
Description: Overall responsibility for day to day operations & updating books of accounts.



Monarch Innovative Technologies Pvt. Ltd
Finance Executive
Location: Mumbai
Job ID: 16457312
Description: Candidate will be responsible for Extensive working on excel on various reports, Receipt reconciliation and tracking of suspense receipts.



TIBCO Software India Private Limited
Credit & Collections Analyst
Location: Pune
Job ID: 16498348
Description: Credit review for new and existing global customers, ensuring that credit limits are appropriate and do not place undue risk on TIBCO.

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The Warrior Prince

His detractors had written him off after he failed to make it to the 2015 World Cup squad, but **YUVRAJ SINGH**, 33, is on course for yet another spectacular comeback. In the recently-concluded IPL players' auction in Bengaluru, Delhi Daredevils picked him up for a whopping ₹16 crore — a price that was never heard of before in IPL history. Barely two months ago, his previous employer, Royal Challengers Bangalore, had decided to let him go. But, he was back in the reckoning with three tons in the domestic league. Yuvi, as he is referred to by his friends, had surprised everyone with his form in the last World Cup, running away with the 'Man of the Tournament' award for his impeccable all-round performance. Earlier, he had come out a winner successfully battling a rare form of lung cancer to represent India at the highest level. In the next edition of IPL, his new franchise would expect Yuvraj to silence his critics with yet another stellar show.

ANILESH S. MAHAJAN



Yuvraj Singh
Cricketer



Punit Renjen
CEO-designate, Deloitte Global

Journey to the Top

PUNIT RENJEN's elevation as the CEO of Deloitte Global, effective June 1, will put him in the growing club of India-born global managers running multinational corporations. Renjen, who has been with the consulting firm for almost three decades, has specialised in mergers and acquisitions. With the global economy showing signs of a slowdown, he will surely have a few challenges to deal with. But nothing comes close to his struggle as a 14-year-old assisting his father to run the family business while burning the midnight oil to master the grades at school.

ANAND ADHIKARI

The Philanthropist

MICHAEL BLOOMBERG, 73, who also serves as the UN envoy for cities and climate change, says he shares Prime Minister Narendra Modi's belief that "cities are key to driving innovation and progress" and considers India's renewable energy targets ambitious, but achievable. During his recent trip to India, he committed \$125 million to Mumbai, one of the participating cities of a global road safety programme, through Bloomberg Philanthropies' Global Safety Initiative.

ARPITA MUKHERJEE

Michael Bloomberg
Founder & CEO, Bloomberg LP



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A. PRABHAKAR RAO



T. Venkatram Reddy
Chairman, Deccan Chronicle

Risk Taker by Default

T. VENKATRAM REDDY, 54, the high-profile and flamboyant newspaper baron with a penchant for expensive cars and horses, has found the going tough over the past couple of years. He was recently arrested by the CBI, along with his brother, and Vice Chairman, T. Ravi Vinayak Reddy, in connection with a loan default case. The CBI has alleged that the Reddy brothers had entered into a criminal conspiracy to cheat Canara Bank. Reddy, who was also the owner of IPL team Deccan Chargers, has always been considered as a man with a high risk appetite.

E. KUMAR SHARMA



Robert Niblock
Global CEO, Lowe's

NILESH BARIKAR

Captivating India

Robert Niblock, the Global CEO of Lowe's, the second-largest home improvement retailer in the US with annual revenues of \$53.4 billion, is upbeat about the company's new captive global innovation center at Bengaluru. The company invested \$8 million to set up the facility spread across 1.1 lakh sq.ft. At present, it has 135 employees. "I am very excited on what this centre can do for Lowe's, globally. We want to grow this centre to 500 people by the end of 2015," said Niblock.

VENKATESHA BABU



MANDAR DEODHAR

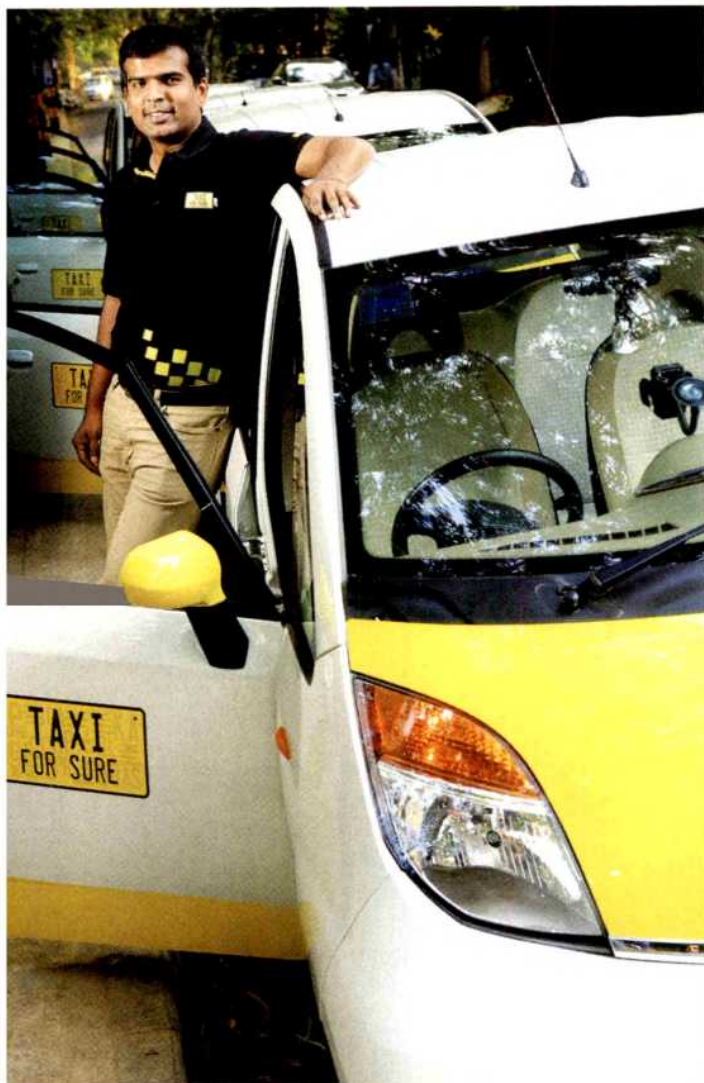
Uday Shankar
CEO, Star India

Ahead of the Curve

Whether it be the decision to broadcast the ICC World Cup 2015 in the 4K format or launch its video-on-demand platform, **UDAY SHANKAR** has always been a step ahead of his peers to ensure Star India is not just the market leader in terms of viewership, but also a trendsetter for ground-breaking technology. He has now shifted his focus to regional television, something he was passionate about ever since he took over the reins of the ₹7,000-odd crore entertainment network. With its recent decision to acquire Hyderabad-based Maa TV for ₹2,500 crore, Star India will consolidate its position in the southern markets. Earlier, the company had acquired Vijay TV and Asianet to gain a sizeable market share across Tamil Nadu, Kerala and Karnataka. The non-Hindi TV entertainment market contributes close to 30 per cent of the ₹43,000 crore Indian broadcasting industry's advertisement revenues. Shankar is going the whole hog to get a slice of that pie.

AJITA SHASHIDHAR

“Our Endeavour Has All Along Been to Enhance Safety”



Online cab aggregators may have been hit hard after the Uber rape incident last December but **Raghunandan G.**, Co-founder and CEO, TaxiForSure, tells **Goutam Das** that investments in drivers and safety technology will change things for the better. Excerpts:

our propositions. As an industry, I believe the key learning was to be more proactive with the regulatory authorities and keep them up to speed on how we are responding to the urban commute challenge through technology and our unique new-age business model.

How can an Uber-like situation be avoided? What security measures have you put in place?

It is ironical that when my Co-founder and I founded TaxiForSure, our primary objective was to provide safe and reliable taxi rides. Our endeavour has all along been to enhance safety. The Uber incident has only strengthened our resolve and accelerated the process of implementing measures that were on the cards. All our cars, for instance, will have advanced GPS system and a panic button; the ‘inform a friend’ feature on our mobile app will enable a friend to track your ride.

How many cabs does TaxiForSure have? How are you using the funding you received in August?

Today, TaxiForSure is present in over 38 cities across India with network of over 20,000 cabs. We are using the funds to strengthen our supply network and create an enduring brand.

How are you different from other aggregators?

We have created a unique culture at TaxiForSure. This has helped us attract terrific talent across levels. We have created a leadership team that is capable of seeing us through unprecedented scale and growth. This is our differentiator. Therefore, unlike other start-ups that scaled rapidly, we will never need to rejig the leadership team. From a customer perspective, this continuity and culture translates to continuous improvement in our commitment to providing safe and reliable services. ♦

What are the lessons that the industry and you have learnt from the Uber incident?

The most critical takeaway for me was to strengthen our brand equity with customers by over communicating with them on several initiatives we do at TaxiForSure. For instance, the investment in our drivers through training and development workshops to ensure customers are delighted when they travel with us, new safety features of our state-of-the-art mobile app, and other unique offers. Though we have several channels of communication with our customers, there is a huge need to keep them constantly informed on

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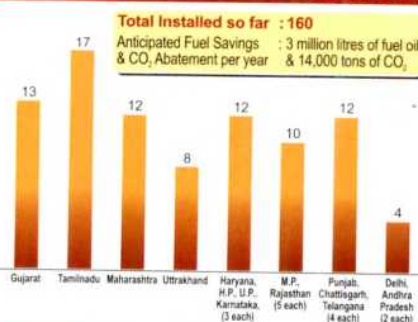


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From the Editor

The Burden of Expectations

The expectations from Finance Minister Arun Jaitley's first full-year Budget were so high that he was bound to disappoint quite a few people no matter what he did. Before the Budget, there was a group of economists which insisted that he should stick to the path of fiscal discipline. And there were others who insisted equally vehemently that what the economy needed most was a stimulus of some sort that would spur growth – and that fiscal discipline could be postponed for a year or two. Individual taxpayers expected many tax benefits. Corporations expected both a more benign tax regime as well as sops that would help new investments. Foreign investors had their own set of expectations. And every industry had a long list of demands.

The expectations from the finance minister were higher than those his predecessors faced because of several reasons. One, he was part of a government that had won absolute majority in the Lok Sabha, and, therefore, he did not have to deal with the unreasonable demands of allies with different economic agendas. Equally important, the crash in global crude prices had given him an

unexpected cushion in his finances. Also, inflation was coming down quite sharply, and growth numbers were looking up – even if the latter was because of a change of methodology.

Few people paid any attention to the fact that the revenue collection of the government was down, and that meant there was a limit to the number of things the finance minister could do in the Budget, especially when it came to spending money for spurring growth. Also, while the government does enjoy a vast majority in the Lok Sabha, it still needs to navigate its bills through the Rajya Sabha where it is outnumbered by the Opposition.

As it turned out, the finance minister presented a fairly sensible Budget. That even his critics agree. He unveiled a number of small initiatives that would help the economy and attract investors. He did not try to reform all taxes or slash subsidies dramatically in the first year. He took a moderate approach.

Were there more things he could have done, bolder steps he could have taken? Probably. On the other hand, what he has done is not bad either. His focus on infrastructure is bound to have both short-term and long-term benefits for the economy and the overall competitiveness of our companies. He is also not ignoring the poor – the universal insurance scheme that he proposed was sorely needed.

To understand both the good and the bad of the Budget, turn to page 94. Apart from expert analysis and the post-Budget panel discussion with a group of eminent economists, we also have an interview with Minister of State for Finance Jayant Sinha, who explains the logic behind the Budget proposals.

Our cover story this issue is on Hyundai, which is having its best year ever in the country. The Korean company is the only automaker that got its calculations right and it is, so far, the only credible competitor to Maruti Suzuki. At the same time, it still has a long way to go before it can come close to Maruti's overwhelming market share of the Indian car market. Executive Editor Suveen Sinha looks at the journey of Hyundai so far, and what it plans to do now.



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Vol. 24, No. 6, for the fortnight March 16-29, 2015.
Released on March 16, 2015.

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Re: Letters to the Editor



Futuristic Cities

This refers to your cover story on smart cities (*A Tale of 100 Smart Cities*, March 15). It is quite interesting and futuristic. In the near future, disposal of garbage and sewage water treatment will probably become a necessity. Very importantly, sewage water must be recycled, even for drinking purposes, so that one can guarantee minimum water supply to all. Our people should be taught properly to segregate the waste

so that water is recycled, and may be only five per cent of it goes for disposal.

G. Venkataraman, Mumbai

Energetic Leaders

This refers to your special report on the brightest corporate performers under 40 (*Hottest Young Executives*, March 15). Kudos to the BT team for spotting the talented young leaders, because identifying them early is easier said than done. All the 17 young and energetic leaders deserve numerous accolades for nurturing innovation and leveraging technology efficiently.

Namita Mahapatra, New Delhi

Vigilant Outlook

This refers to the interview of Reserve Bank of India Governor Raghuram Rajan (March 1, 2015). The interview talked about the interventions carried out by the RBI under Rajan's leadership to resolve various issues and the short- and long-term programmes to tackle numerous problems. His vigilant outlook has helped improve banking and financial pro-

cesses. However, it must be mentioned that monetary policy needs to be completely revamped to suit changing requirements. State-run banks must follow broad-based annual prescriptions of the RBI in tandem with the government's policies. The pending reforms in the banking sector must be aligned to the global winds of change.

B. Rajasekaran, Bangalore

Worrying Divestment

This refers to an article on disinvestment (*LIC to the Rescue*, March 1). One worrying issue in disinvestment is the suspected "group looting" in collaboration with merchant bankers, by raising the share prices of public sector undertakings like NHPC and Hindustan Copper. Indeed, retail investors have lost heavily. Also, Life Insurance Corporation and other state-run institutions buying shares in disinvestment at these high prices does injustice to their investors and to the people at large. This needs to be corrected.

S. Sadasivan, On e-mail

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"Hey prabhu, ye kaise hoga", says Union Railways Minister Suresh Prabhu, while presenting the Railway Budget in Parliament.

"Prabhu jo karenge achha hoga." - Devendra Sahoo

SBI consortium initiates possession of Kingfisher house.

The king of good times is going through a bad phase.

- D.S. Dhoot

Soon, you may not have to change your cell number when you change cities. If it is true, what about the roaming charges? - Chandu Powerstar

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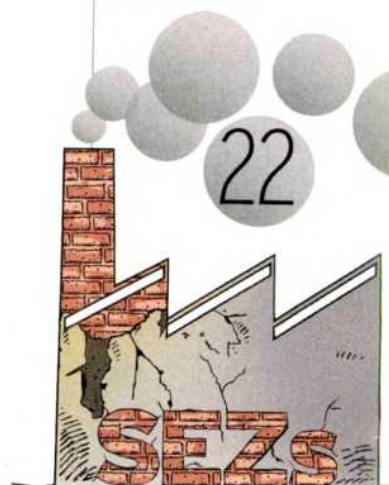
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INTERVIEW



"India presents a unique opportunity for city-to-city ridesharing"

BlaBlaCar COO **Nicolas Brusson** tells **Vivan Mehra** the popular inter-city ridesharing service company's plans for India.

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Twitter chat with RPG Enterprises Chairman **Harsh Goenka**.
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Twitter chat with MP and tech entrepreneur **Rajeev Chandrasekhar**.
businessstoday.in/budget2015-rajeev

PERSPECTIVES

Anand Adhikari explains why the RBI cut the repo rate to 7.5 per cent.
businessstoday.in/rbi-ratecut2015

E. Kumar Sharma elaborates on the reasons for Sun Pharma buying GSK's Opiates business in Australia.
businessstoday.in/sunpharma-gsk

BT COLUMN



The Curious Disconnect

E. Kumar Sharma says there is a disconnect between the Budget and the draft national health policy.
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The Oberoi
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*"It's too little, too late...
No private sector
project will take off at
such high interest rates."*

That's Larsen & Toubro Chairman **A.M. Naik's** response to Reserve Bank of India's post-Budget rate cut, in an interview with *Business Standard*.



HOW TO SPEND YOUR BILLIONS

Paul Allen, Microsoft's co-founder, claims to have discovered the wreck of the *Musashi*, a Japanese warship that was one of the largest and most heavily armed. It was sunk in an air attack by American and Australian forces in 1944 during the Second World War. Allen left Microsoft in 1983, eight years after founding it with Bill Gates, and is ranked among the world's wealthiest people with \$17.5 billion in net worth. He owns three mega yachts, three professional sports franchises, plays the guitar in a rock band, and has given away \$1.5 billion.



THE RICHEST OF THEM ALL

Dilip Shanghvi, the Founder and Managing Director of Sun Pharma, is now India's richest person. He topples Mukesh Ambani from the perch.

7%

The economic growth China is targeting in 2015. It grew 7.4 per cent in 2014, which was its slowest in 24 years. The government's target for the year was 7.5 per cent.



SEPTEMBER 2015

That's when **Apple** will begin producing a larger 12.9-inch iPad, according to media reports. The production was to begin this quarter, but got delayed due to inadequate supply of display panels.



"These bunch of thieves have stolen several of my books without so much as a 'by your leave'. Ladies Vs Ricky Bahl and Khudgarz, and several others."

Said British Author **Jeffrey Archer** in an interview with the *DNA* newspaper. As you may have divined, the "thieves" are Bollywood filmmakers.

Paharpur Makes Green Greener



Paharpur has designed and supplied cooling towers for green buildings with approach as low as 1°C, making the air-conditioning plants of these buildings more energy efficient and reducing their energy consumption during the peak Indian summer-monsoon months to lower-than-ever levels. In addition to reducing the building's carbon footprint, these cooling towers are also more cost-efficient in the long run. The higher price of these towers is more than offset by the

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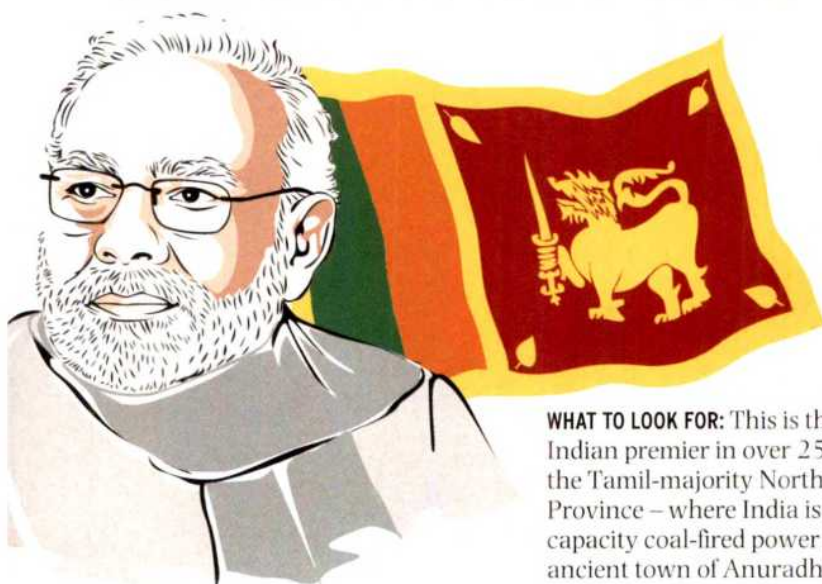


AIR-COOLED HEAT EXCHANGERS

COOLING TOWERS

AIR-COOLED STEAM CONDENSERS

CALENDAR



RAJ VERMA

13 - 15

LANKA CALLING

WHAT: Prime Minister Narendra Modi's visit to Sri Lanka

WHEN: March 13-15

WHAT TO LOOK FOR: This is the first bilateral visit to Sri Lanka by an Indian premier in over 25 years. Modi is likely to go to Jaffna in the Tamil-majority Northern Province, and Trincomalee in the Eastern Province – where India is partnering Sri Lanka to build a 500 MW capacity coal-fired power plant. He is also expected to pay a visit to the ancient town of Anuradhapura, considered a centre of Buddhism.

15

CENSUS WITH A DIFFERENCE

WHAT: Socioeconomic and Caste Census

WHEN: By March 15



WHAT TO LOOK FOR: The Centre has warned that assistance to states for building rural houses and welfare pensions would be blocked if they fail to complete the exercise before March 15.



19 - 20

MEET THE NEW-AGE MARKETERS

WHAT: Ad: tech, is the #1 Digital Marketing and Advertising Conference and Exhibition in India

WHERE: Delhi

WHEN: March 19-20

WHAT TO LOOK FOR: Confluence of ideas from marketing, technology and new media to shape new strategies. This year's keynote speakers include Rahul Welde from Unilever, **Rob Norman** from GroupM, and **Mukesh Bansal** from Flipkart.

18

GOING GREEN

WHAT: CII's Green Manufacturing Summit

WHERE: New Delhi

WHEN: March 18

WHAT TO LOOK FOR: Whether it is a green automotive or green cement, green products are the way forward.

Green manufacturing is applicable to several sectors such as automobile, steel, cement, electronics, chemicals, consumer durables, power generation. Find out what inspires the CEOs to embark on a green and sustainable manufacturing.





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FOCUS

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22 Graphiti: Not So Special



VIVAN MEHRA

Coal

In the second phase, starting March 8, 45 companies are bidding for 11 coal mines



Natural Justice

For decades government policies were prepared in corporate headquarters. Hopefully, that phase is over. By RAJEEV DUBEY

₹1.09 lakh crore

Amount raked in from bidding of 19 coal blocks so far

So, it was a ₹1.86 lakh crore – and counting – scam after all. The Comptroller and Auditor General (CAG) of India's explosive observation in a report tabled in Parliament in 2012 contended that by choosing to allot coal mines, rather than hold auctions, over the years the government had helped the allottees with a "windfall gain" of ₹1.86 lakh crore.

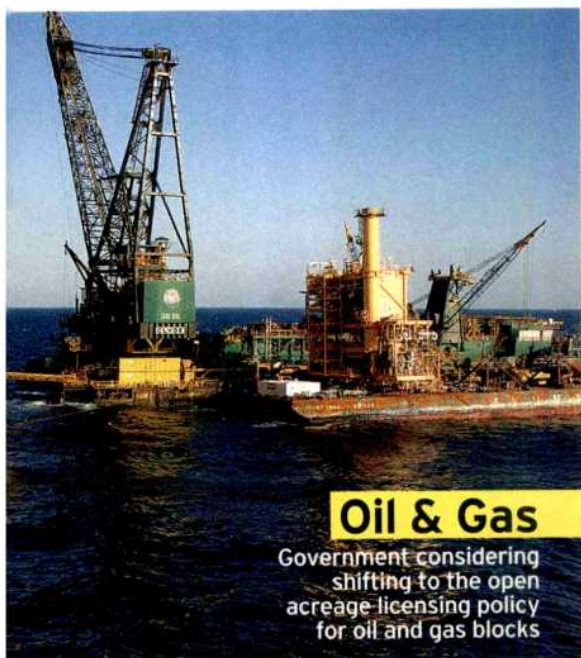
At that point, the government led by former prime minister Manmohan Singh, who also held the coal ministry portfolio between 2006 to 2009 when some of the allocations

took place, denied and denounced the CAG report. But on the basis of a public interest litigation, the Supreme Court cancelled 204 coal blocks allotted between 1993 and 2010. SC Chief justice R.M. Lodha, along with Justices Madan B. Lokur and Kurian Joseph, noted that the allocations were arbitrary and lacked transparency. These blocks had been allotted in different states to 25 companies, including Jindal Steel & Power, Hindalco, Tata Power, Tata Steel and Essar Power.

Two years since, just 19 of the 204 coal blocks cancelled by the Supreme Court in August, 2014, have been sold for nearly ₹1.09

lakh crore in the first round. Chhattisgarh will be the biggest beneficiary with projected revenues of ₹47,552 crore followed by Madhya Pradesh at ₹35,588 crore and Jharkhand at ₹12,622 crore over the next 30 years. Bidding for the second round, with 21 more blocks on offer, began on March 4. Going by the interest in the coal blocks – and the aggressive bidding by some players, including the Aditya Birla group, Essar and Vedanta Resources – the state exchequer will go well past the ₹1.86 lakh crore by

ters, rather than in the respective ministries. Several ministers and bureaucrats had become pliant stooges of businesses. Wherever decisions went against their interest, corporates could even send the minister packing, as Jaipal Reddy found out during the UPA tenure. For years, a happy collusion between politicians and businesses – and the various consultants and lobby groups they sponsor – has been creating the impression that there are no takers for India's vast natural resources. Whether it was telecom,



the time all the 204 blocks are bid out. Interestingly, the CAG had originally pegged the loss to the government at ₹10.5 lakh crore. However, it noted a figure of ₹1.86 lakh crore when the report was finally tabled in the Parliament.

Voters punished the Manmohan Singh government for its perceived complicity in allocation and the corruption involved. The Singh-led government lost power and reduced the Congress to its lowest tally ever in Parliament.

It's not as if the government had never thought of selling blocks after price discovery. In 2004, the government had announced its intention to allocate captive coal blocks through bidding. But, clearly, the government was prevailed upon by vested interests. The then coal secretary P.C. Parakh later said his demand for open competitive bidding in coal blocks was ignored by the then coal minister Shibu Soren, despite the prime minister's approval.

Coal ministry isn't the only government department where national and public interest was sacrificed at the altar of private interest. As the recent oil and defence ministry corporate espionage investigation proves, for decades government policies were prepared in corporate headquar-

coal, iron ore or oil and gas, the stranglehold of this trio ensured national interest was never a priority. Their pre-fabricated policies ensured the conditions were inimical to transparency and free and fair competition. That naturally prevented foreign investment, which in turn gave the trio the opportunity to propound the flawed logic that foreign investors had no interest in India's natural resources. Or, that the nation was over-pricing its natural resources.

What broke the shackles was the SC's tough stance through telecom and coal licence cancellations. It may have invited derision from business as being regressive, but they have also put all such perpetrators on notice.

Telecom spectrum auctions opened the floodgates of transparency and it appears there's no looking back from here. If the auction turned out to be a windfall for the government, coal block auction clearly is the icing on the cake. Hopefully, with this, the last bastion of politico-business nexus that kept valuable national natural resources out of the radar of price discovery has been broken. ♦

@rajeendubey

A Wider Malaise

India is highly vulnerable to a range of animal-to-human infections. By E. KUMAR SHARMA



Highly contagious: Swine flu spreads from humans to humans

SWINE FLU IS ONLY ONE AMONG SEVERAL DISEASES WITH ZONOTIC ORIGIN THAT HAVE THE POTENTIAL TO SPREAD RAPIDLY

The Indian government is making an all-out effort to contain the outbreak of swine flu. Already, over 14,500 cases have been reported and some 850 have died. But swine flu, or the H1N1 influenza, is only one among several diseases with zoonotic origin that can spread rapidly. "Zoonoses" are infections that are transmissible from animals to humans. Incidentally, swine flu, has now moved on from being zoonotic to becoming a seasonal flu that spreads from humans to humans. More worryingly, while India is prone to their occurrence, there is limited information available to effectively combat them. Right now, they have been occurring in small pockets but some have been spreading across the coun-

try, and without better facilities to monitor them India would be ill equipped to manage a large outbreak of these diseases.

"Studies have shown that India has one of the highest density of livestock population and this in the backdrop of poorly guarded animal-human interface makes the country highly vulnerable to zoonotic disease outbreaks," says Manish Kakkar, Senior Public Health Specialist at the Public Health Foundation of India (PHFI). "Majority of this livestock is in small holdings and in informal settings. The Indian subcontinent has been identified as one of the four global hotspots at increased risks from emergence of new infectious diseases, particularly zoonoses according to various studies," he adds.





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Indeed, various zoonotic diseases have been occurring in different pockets of the country at regular intervals. Consider, for instance, Leptospirosis. The disease shot into the limelight after the 2005 floods in Mumbai. It is a water-borne bacterial infection spread from the urinary tracts of rodents and cattle. Leptospirosis can damage the liver, cause jaundice and, in some cases, even affect lungs. Its symptom is often fever with jaundice which means it can go undetected initially. The high risk population includes sewer workers and farmers tending to their crops in paddy fields. The disease, first noticed in the Andaman Islands, used to earlier occur in pockets of Gujarat, Maharashtra, Tamil Nadu and Kerala. But now, according to PHFI, there are reports of people with this ailment even in North India. This means it is spreading across the country and there is an urgent need for the government to evolve a strategy to combat it and prevent an outbreak.

Similarly, Brucellosis is another zoonotic disease. It spreads from cattle, sheep and goat, causing fever, infertility and even abortions. The high risk groups are dairy farmers and veterinarians. "The problem here is that there is no national level data available," says Kakkar. "While there are various government agencies we have really no idea of how widespread this is nationally. There are smaller studies that have shown that animal population impacted by this could be 12 to 15 per cent, which is quite high. Among the high risk human population that deal with these animals, five to 15 per cent could be affected, which again is high."

There are host of other infections which are spread from animals. Bovine tuberculosis is spread from cattle. Anthrax is a bacterial infection spread from dead animals, usually

OTHER DISEASES OF ANIMAL ORIGIN

A host of zoonotic diseases periodically surface in different parts of India

- **Leptospirosis:** Spreads from rodents and cattle
- **Brucellosis:** Spreads from cattle, sheep and goat
- **Bovine tuberculosis:** Spreads from cattle
- **Anthrax:** Spreads from dead animals, usually cattle
- **Avian flu:** Spreads from poultry to humans
- **Severe Acute Respiratory Syndrome (SARS):** It was initially a zoonotic disease but is now spread from human to human
- **Rabies:** Spreads from dogs. It is almost 100 per cent fatal but is also 100 per cent preventable

cattle, and tends to occur in backward tribal areas, where sometimes sick animals are killed and consumed. Then there is Avian flu which is spread from poultry to humans. "It is a serious disease," says Kakkar. "The mortality levels can be quite high as it could be fatal in almost every second person affected by it." SARS (Severe Acute Respiratory Syndrome) is another disease of zoonotic origin but today spreads human to human and causes respiratory problems.

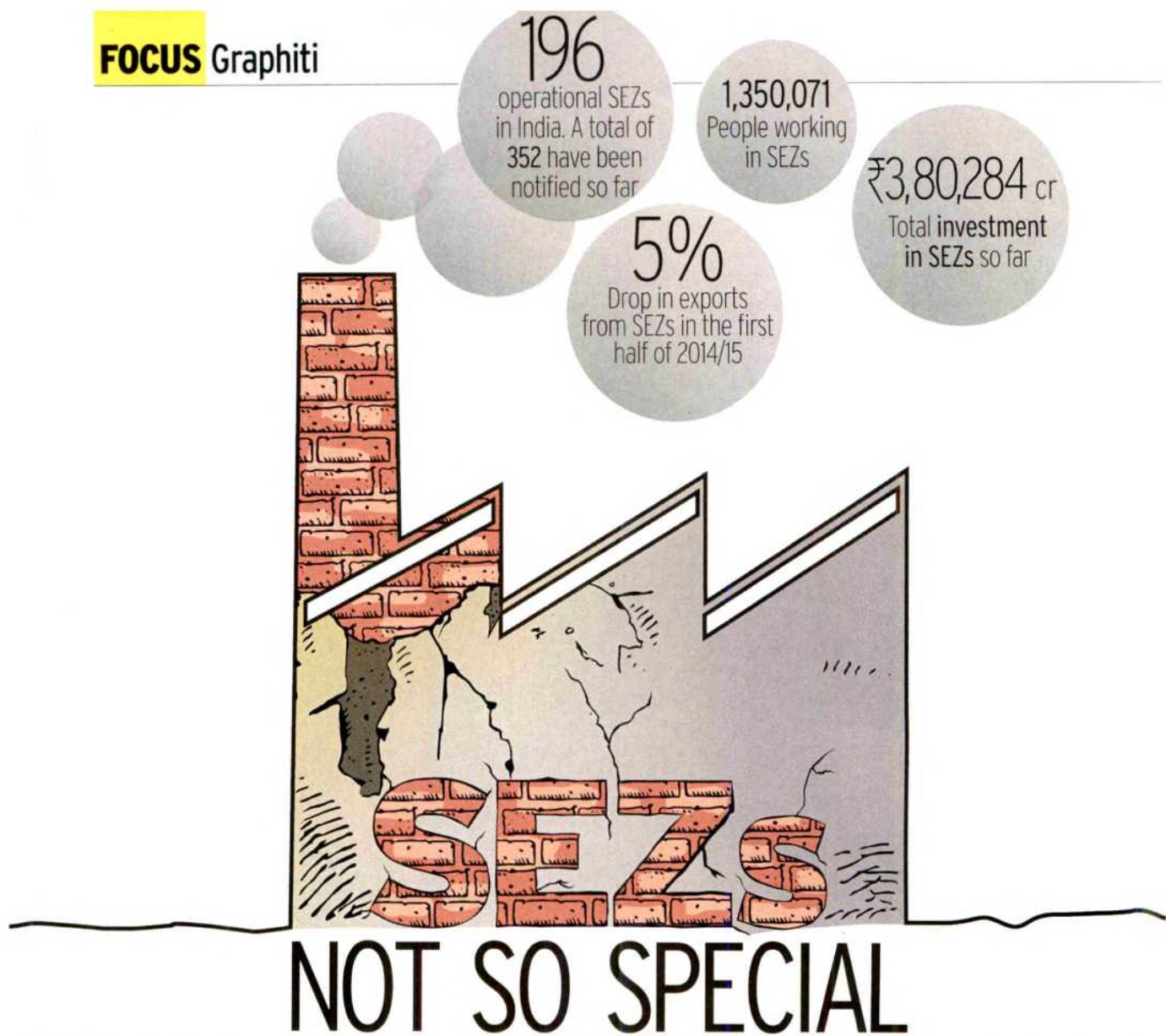
The most commonly known animal to man disease is, of course, Rabies. It is spread through dog bites and scratches but most Indian towns and cities have made little effort to combat it. "There would be an estimated 30 million street dogs across the country and of these, less than 10 per cent would have been vaccinated and sterilised," says S. Chinny Krishna, Vice Chairman of the Animal Welfare Board of India. The World Health Organization mandates a higher coverage

(at least 70 per cent). "It will help if Rabies is made a notifiable disease and if municipal corporations in states are strengthened to better handle waste management," he adds.

Clearly, given the elevated risk to India from zoonotic diseases, it is important that we have a policy framework in place to prevent an outbreak. "We need to fund creation of data and evidence-base (data to support actions) on these infections so that they can be controlled in animals," says Kakkar. "We should prevent infections spreading to humans. This can happen with better collaboration (between various agencies), an operational framework from the government, better surveillance and sharing of data on these diseases." ♦

@EKumarSharma

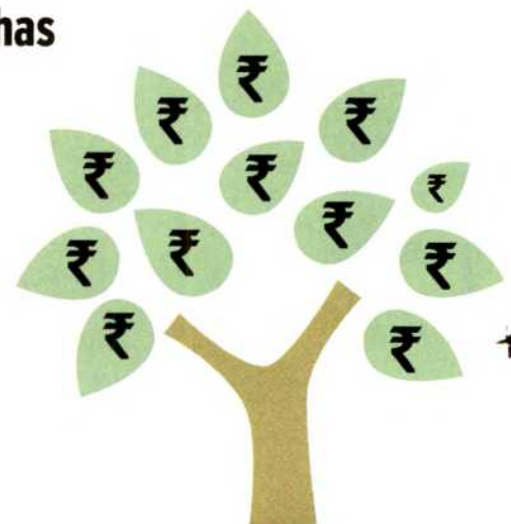
GIVEN THE ELEVATED RISK TO INDIA FROM ZOONOTIC DISEASES, IT IS IMPORTANT TO HAVE A POLICY FRAMEWORK IN PLACE TO PREVENT AN OUTBREAK



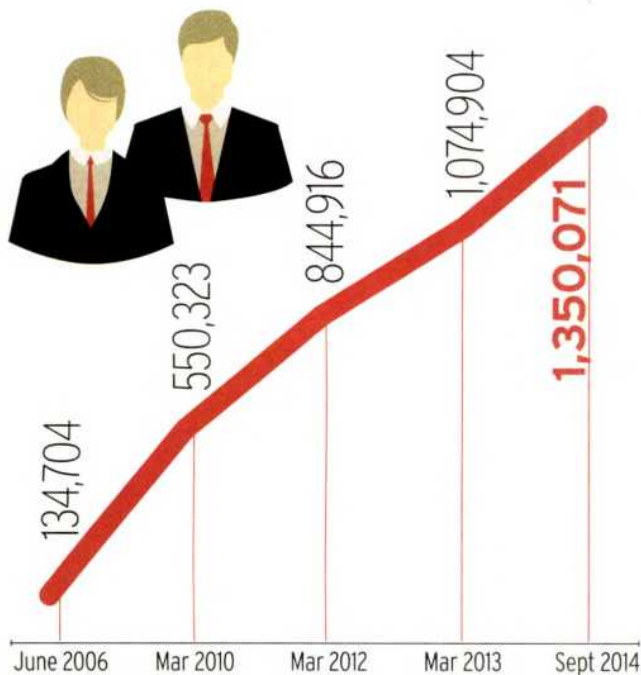
The Special Economic Zone (SEZ) policy in India was unveiled in 2006 to give a fillip to exports. But SEZ projects are falling out of favour with investors because of the withdrawal of tax benefits to them. Indeed, it could be a setback to the government's "Make in India" initiative.

Graphic by: **Anand Sinha** Research by: **Niti Kiran and Jyotindra Dubey**

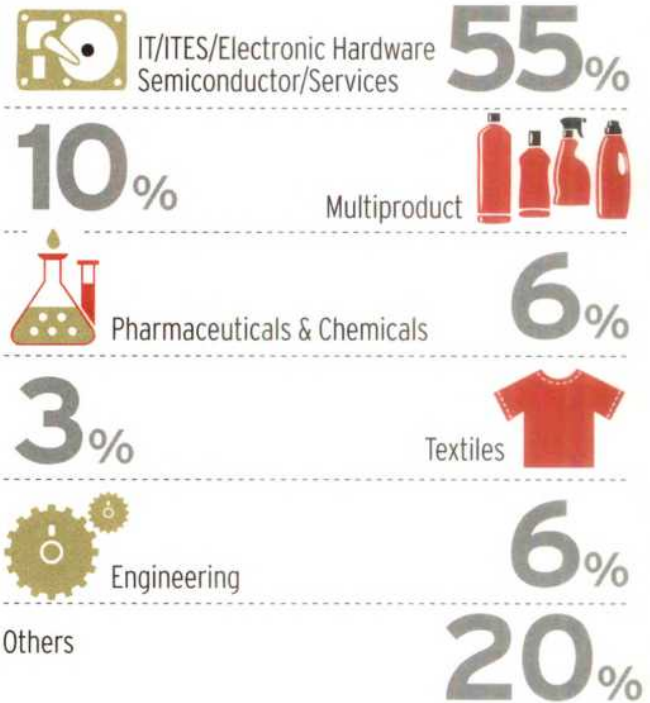
1) A lot is at stake. A large sum of money has already been invested in SEZs



2) The number of people **employed** with SEZ units has jumped 10 times in eight years



3) However, multiproduct SEZs are yet to take off. **More than half of operational SEZs cater to the IT & ITES sector**



4) SEZs have emerged as major export hubs. But **the withdrawal of MAT* and DDT** exemptions in 2011/12 for units in these areas has dealt a body blow. Indeed, exports from SEZs dropped in the first half of 2014/15**

	TOTAL EXPORTS (₹ CR)	SEZ EXPORTS (₹ CR)	SEZ EXPORTS (% OF TOTAL EXPORTS)	GROWTH OVER PREVIOUS YEAR
2005/06	4,56,418	22,840	5	-
2006/07	5,71,779	34,615	6	52
2007/08	6,55,864	66,638	10	93
2008/09	8,40,755	99,689	12	50
2009/10	8,45,534	2,20,711	26	121
2010/11	11,42,922	3,15,868	28	43
2011/12	14,65,959	3,64,478	25	15
2012/13	16,34,319	4,76,159	29	31
2013/14	18,94,182	4,94,077	26	4

56

SEZ developers have recently got government nod to surrender their projects. A few major ones that are pulling out:

DLF Commercial Developers

JSW Aluminium

Delhi Metro Rail

Xansa SEZ

Parsvnath SEZ



WHAT'S TRENDING

The Value of the Digital Handshake

How social graphs can unlock the potential of virtual relationships for businesses.

By **CHITRA NARAYANAN**

In the virtual world, six degrees of separation – the theory that you are only six steps away from knowing any other person in the world – has probably narrowed down to three.

Facebook, Twitter, LinkedIn *et al* have played a big part in fostering social connections. Moving beyond social connections, the next step they did was to create digital maps

of all the people you are linked to – these are known as social graphs. Facebook pioneered this concept with its Open Graph, which mapped out people and their relationships. Businesses that used Facebook's Open Graph took it to another level when it mapped out other parts of the graph – things like what people you are linked to care about, are talking about and are buying.

Websites like TripAdvisor have grown thanks to the way they have used these social graphs almost like a digital handshake. For instance, if you were to log into TripAdvisor and look up reviews of a hotel, chances are the reviews posted by your Facebook friends will appear right on top. The idea is that you would prefer "wisdom from friends" rather than "wisdom from stran-

SOCIAL TOON



gers". It is inherent human psychology. This is why the accommodation review site created TripFriends, a side application that lets you see which of your friends have been to a place you want to visit and lets you ask them questions.

Savvy e-commerce marketers today use social graphs in some form or the other to propel their businesses. On food review site Zomato, for instance, if you log in through your Facebook or Google account, you get notifications of your friends' activities on the site – what they have reviewed, rated, recommended.

Now imagine if a website were to integrate dozens of social graphs together – it would get a whopping data mine full of personal information infused with social context. Sites like Amazon use this cleverly to offer you a list of recommendations of books and products based on your preferences displayed in other sites. The more a customer is open and shares information across the web, the richer the social graph, and more useful the service the sites can provide (though, of course, many people refrain from sharing due to privacy concerns leading to blank spaces in these social graphs).

In a recent paper in *Harvard Business Review*, Sangeet Paul Choudary, Founder and CEO of Platform Thinking Labs, and entrepreneur-in-residence at INSEAD Business School, forecasts that the next step in the evolution of the way companies use social graphs is to draw commercial graphs. "Commercial graphs depict relationships between businesses based on their actual interactions as they are captured digitally," he writes.

There is no end to the possibilities that Choudary outlines. He says that drawing on all the data on review sites, reputation scores of businesses can be created. Based on interaction data, he says, "Commercial graphs can visually display three things – companies in an ecosystem, the relationships among them and the reputations they have earned through mutual dealings."

Now aggregate these commercial graphs and a company will soon be able to benchmark its performance against each other on its business dealings across the web. As somebody said, doing business on the web is all about getting close and personal and drawing out the connections. ♦

@ndcnn

No. Earlier he used to ask us for hourly stock market reports. Now he asks us for hourly Twitter trends!



LISTENING POST

Now Wear Your Social Media!



Imagine wearing collars that buzz, and a T-shirt that lights up when it spots people with shared interests! Social textiles is the next frontier breached by a group of MIT students. The students from MIT's Tangible Media Group and Fluid Interface Group have created a social garment which pairs to a smartphone via Bluetooth and alerts the wearer when people with similar interests and backgrounds are nearby. It even lets the wearer know if people are compatible organ donors. The social garment was created because the students questioned if the current form of social media was really making our relationships better. As they say: "Current technologies are good at connecting people at distance, but less so at connecting them within the same environment." So at a crowded banquet, vegetarians can spot each other. Or in an industry conference setting, executives who want to network with likeminded ones can get connected. What next!

Pinterest Woos Men

Almost three quarters of social scrapbook site Pinterest's users are women. Somehow, men have kept away, perhaps, inhibited by the sight of girly things – dresses, shoes, fashion, craft – that greet you. The perception is that the boards are all about weddings and cakes and home decorations. In a bid to correct the balance, the image sharing network has now launched a new feature to its Guided Search that allows users to filter results according to gender. With this, the site hopes that men will be able to find more masculine content. And it will grow its traffic.



No Premium for FDI

The government has taken the sheen off the FDI cap hike in insurance by mandating Indian partners to keep management control of local joint ventures.

BY ANAND ADHIKARI

W

hen Australian insurer QBE tied up with the Rajan Raheja Group in 2007 to start an insurance venture, it bargained hard to gain an upper hand even though Indian law at the time barred foreign players from taking a stake of more than 26 per cent in a local insurance company. The 125-year-old QBE settled for a minority stake in Raheja QBE General Insurance Company but with a condition that it would raise its holding up to 50 per cent when India increases the foreign direct investment limit in the insurance sector. QBE also retained the right to appoint an equal number of board members and, in consultation with the Rahejas, the managing director of the venture as well as other top executives through the MD. In effect, QBE ran the company where the Rahejas owned the majority stake.

The arrangement has worked well so far and the general insurance company has achieved break-even. But this happy arrangement may have to be changed now. Why? In





CRUX OF THE MATTER

The rider on Indian partners retaining management control will affect many local insurance joint ventures

Star Union Dai-ichi Insurance

State-owned Bank of India currently owns the maximum 51 per cent stake, but the JV agreement allows Japanese major Dai-ichi to own 44 per cent with BoI holding 30 per cent and Union Bank of India with 26 per cent

PNB Met Life Insurance Company

State-run Punjab National Bank is the biggest shareholder with more than 30 per cent stake, but the JV agreement allows US major Met Life to hike its stake to 49 per cent, thereby emerging as a majority shareholder

HDFC Life Insurance Company

Housing major HDFC currently holds a majority stake, but the JV pact gives UK-based Standard Life the right to hold an equal 45 per cent stake after the FDI relaxation

Raheja QBE General Insurance Company

Rajan Raheja-owned Prism holds 74 per cent in the JV, but the agreement allows QBE to hike its stake to up to 50 per cent if the law permits. QBE already has the right to nominate the MD & CEO, who in turn has the right to appoint the CFO and Actuary

Universal Sompo General Insurance Company

State-owned Allahabad Bank owns the majority 30 per cent with Japan's Sompo holding 26 per cent. The remaining stake is with Indian Overseas Bank, Karnataka Bank and Dabur. The agreement allows Sompo to go up to 49 per cent, which would make it the majority owner

ALAY THAKURI



December, the government increased the FDI cap in the insurance sector to 49 per cent. Insurers had been waiting for this easing for almost a decade, but they are not celebrating just yet because the FDI cap hike came via an ordinance that would need parliamentary approval within six months, or by June this year. What has baffled insurance companies further is a rider in the ordinance which says that management control in local insurance joint ventures will remain with the Indian partner. On February 19, the government issued detailed rules for FDI in insurance specifying that Indian ownership means more than 50 per cent of the equity capital of an insurer owned by resident Indian citizens. "There could be legal complications in every joint venture post the ordinance because of shareholder agreements giving equal or higher rights to foreign partners," says the CEO of an insurance company who does not wish to be named.

India allowed private players in the insurance sector in 2000 after the enactment of the Insurance Regulatory and Development Authority (IRDA) Act, 1999. The law allowed foreign companies to hold up to 26 per cent in local insurers. As the industry expanded – the country now has about four dozen insurers – demands for increasing the FDI cap grew louder. In 2008, the Congress party-led United Progress Alliance government introduced a bill in parliament to increase the cap to 49 per cent but the amendment could not be passed due to opposition from many political parties. The BJP-led government, formed in May last year after the party's resounding victory in Lok Sabha elections, finally increased the FDI cap but only through an ordinance as it lacks enough numbers in the Rajya Sabha. The Lok Sabha

CAPITAL CONUNDRUM

The life insurance and general insurance sectors do not need much capital at the moment

LIFE INSURANCE

YEAR	CAPITAL	GROWTH (%)
Mar'08	12,296	51
Mar'09	18,253	48
Mar'10	21,020	15
Mar'11	23,662	12.5
Mar'12	24,951	5.4
Mar'13	25,519	2.3
Mar'14	25,939	1.6

GENERAL INSURANCE

YEAR	CAPITAL	GROWTH (%)
Mar'09	4,830	--
Mar'10	5,685	17.7
Mar'11	6,706	18
Mar'12	7,826	16.7
Mar'13	8,800	12.4
Mar'14	9,520	8.1

Capital in ₹ crore

Source: IRDA

passed the insurance bill on March 4.

Industry executives say the ordinance opens a Pandora's box in the 15-year-old private insurance industry. The ordinance defines the word 'control' as the right to appoint a majority of the directors or to control management or policy decisions including through shareholder agreements or voting rights. But this is not clear enough, say industry executives. Moreover, like QBE, many foreign partners have management

control with powers to decide about the business and key appointments by virtue of rights defined in their joint venture agreements.

"People are expecting more clarification (from the government and regulators)," says Amitabh Chaudhry, MD and CEO of HDFC Life, a joint venture between mortgage lender Housing Development Finance Corporation and Standard Life Plc of the UK. Deepak Mittal, MD and CEO of Edelweiss Tokio Life Insurance Company, concurs. "There are issues like how the control will be specified, the body which will check such issues, and also operationalisation of the ordinance," says Mittal.

Haigreve Khaitan, Managing Partner at law firm Khaitan & Company, says it remains to be seen how IRDA would interpret "control". "Any foreign investor investing 49 per cent is likely to expect some say in the affairs of the company. Also, the insurance sector is not as sensitive a sector as defence or telecom and there is a case for IRDA to be liberal in interpreting what constitutes control," he says.

The FDI relaxation will also lead to a situation where some foreign players will end up owning a higher stake in their local ventures. For example, Star Union Dai-ichi Life Insurance Company is a joint venture of three companies – state-run Bank of India has the majority 51 per cent stake, Japan's Dai-ichi 26 per cent and state-run Union Bank of India 23 per cent. The partners had agreed at the time of signing the JV in 2008 to give majority ownership to Dai-ichi whenever India eases its FDI regime. The equity arrangement agreed post FDI relaxation would give 44 per cent to Dai-ichi, 30 per cent to Bank of India and 26 per cent to Union Bank of India, effectively giving control to the foreign partner. Similarly, in PNB



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Met Life Insurance Company, the US-based Met Life has 26 per cent stake and state-run Punjab National Bank has 30 per cent with other Indian partners holding the balance. The JV agreement provides for



HAIGREVE KHAITAN

Managing Partner, Khaitan & Company

"Insurance is not as sensitive a sector as defence or telecom and there is a case for IRDA to be liberal in interpreting what constitutes control"

Met Life to own 51 per cent or lower based on the FDI regime. Met Life now can increase its stake to 49 per cent while PNB, currently the biggest stakeholder, holding much less.

A similar situation could arise when insurers list their shares on stock exchanges. Indian law requires 25 per cent of a listed company to be owned by public. So if an insurer launches an initial public offering but the foreign partner keeps its stake intact, then the Indian company would end up with a smaller holding in the joint venture. Two big private insurers – HDFC Life and ICICI Prudential – meet the 10-year crite-

their stake beyond 26 per cent. So far, FIPB had no role to play in the insurance sector as 26 per cent FDI was allowed through the automatic route. Industry executives feel that the FIPB could restrict management rights and board representation of foreign players. There could be a possibility of the FIPB denying majority stake to foreign players if the holding of the Indian partner is comparatively lower. There could be problems even when the FIPB allows foreign players to increase their stakes with riders. "If Dai-ichi or Met Life get a higher stake or majority stake without any rights to control the venture, why will they honour

shareholders agreement post the FDI relaxation to 49 per cent that will reflect its revised rights based on its new holding. Another example is that of Tata AIA Life Insurance. AIA, the foreign partner, had guarded itself against "discriminatory" changes in law by inserting a clause in the shareholder agreement that says it will be entitled to transfer all its shares to a third party if a change in law materially and adversely affects its rights. Many are reading the rider of Indian control as discriminatory in nature.

So, what's the way out of this logjam? Shashwat Sharma, Partner, Financial Services, KPMG India, offers

SHASHWAT SHARMA

Partner, Financial Services, KPMG

"It wouldn't matter if foreign partners control the management. A majority of board members would represent the Indian partners"



tion of IRDA for listing. HDFC Life has indicated its preference for an IPO while ICICI Prudential doesn't have any immediate plan. "Standard Life has publically talked about increasing their stake but what that number would be is something that needs to be determined," says Chaudhry. HDFC and Standard Life's JV agreement talks about an equal stake of 45 per cent post the FDI relaxation. If the insurer opts for an IPO, it is not clear whether HDFC or Standard Life or both would dilute their stake.

Another area of concern is that foreign players would have to seek permission of the Foreign Investment Promotion Board (FIPB) to increase

the pre-decided valuation commitments?" asks an industry executive.

Many say the FIPB will now have the final word on JV agreements. Until now, the shareholder agreements were approved by the sector regulator IRDA. Shareholder agreements of many companies may need to be revised but that could discourage foreign investors. A case in point is Universal Sompo. The company is a joint venture among Japan's Sompo and four Indian partners – Allahabad Bank, Karnataka Bank, Indian Overseas Bank, and consumer goods maker Dabur. The five partners had previously agreed that Sompo would have the right to execute a fresh

an interpretation of the rider on management control. He says it wouldn't matter if the foreign partner controls the management. "A majority of board members would represent the Indian partners. The management and CEO would be accountable to the board," he says.

Some industry executives even question the necessity of the ordinance at a time the insurance industry is not facing any capital shortage thanks to the economic slowdown in recent years. "We will need capital if growth revives in a big way," says Tarun Chugh, MD and CEO of PNB Met Life. For now, however, insurers are sitting on the fence and hoping that parliament would modify the restrictive riders before giving its assent. ♦

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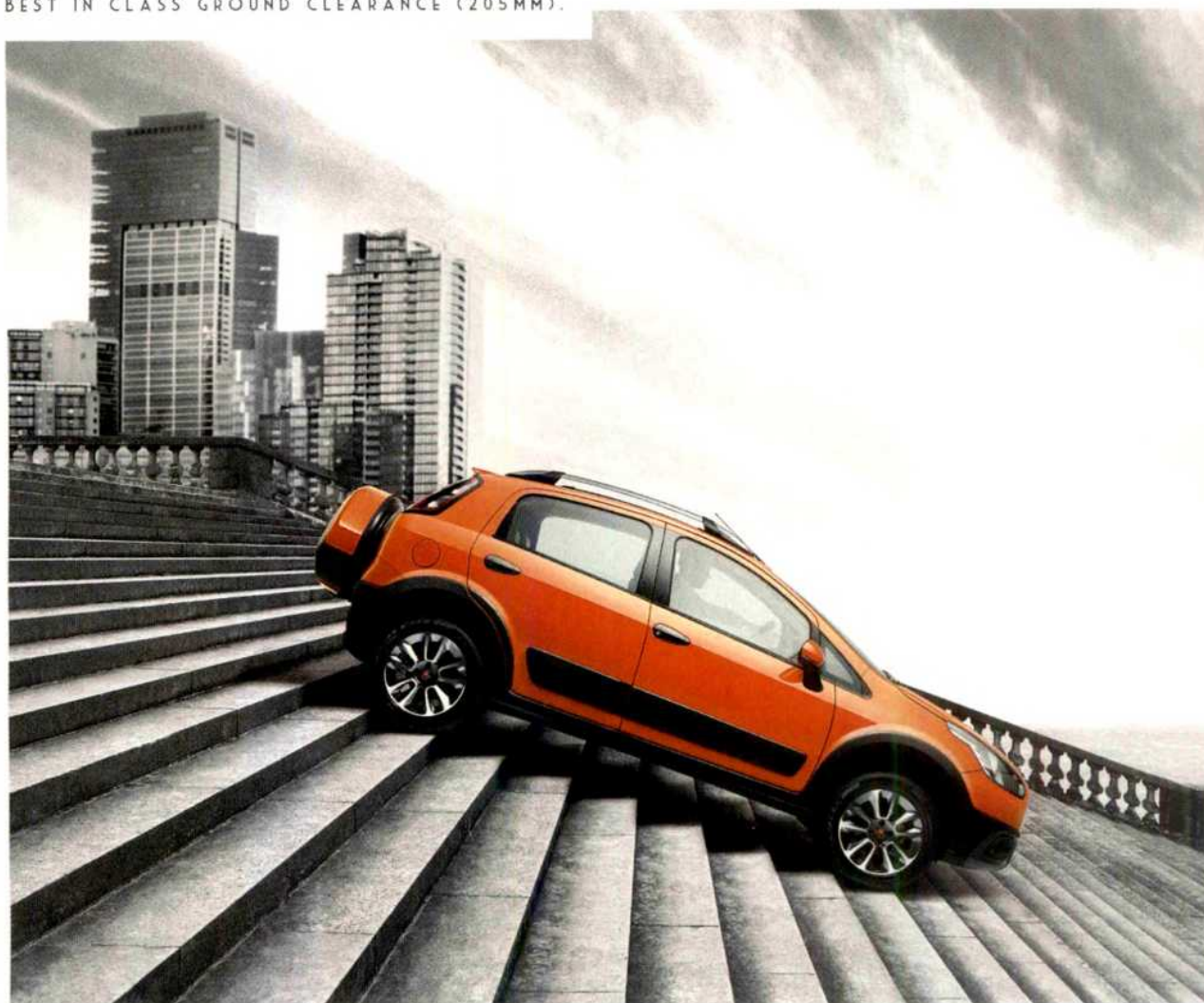
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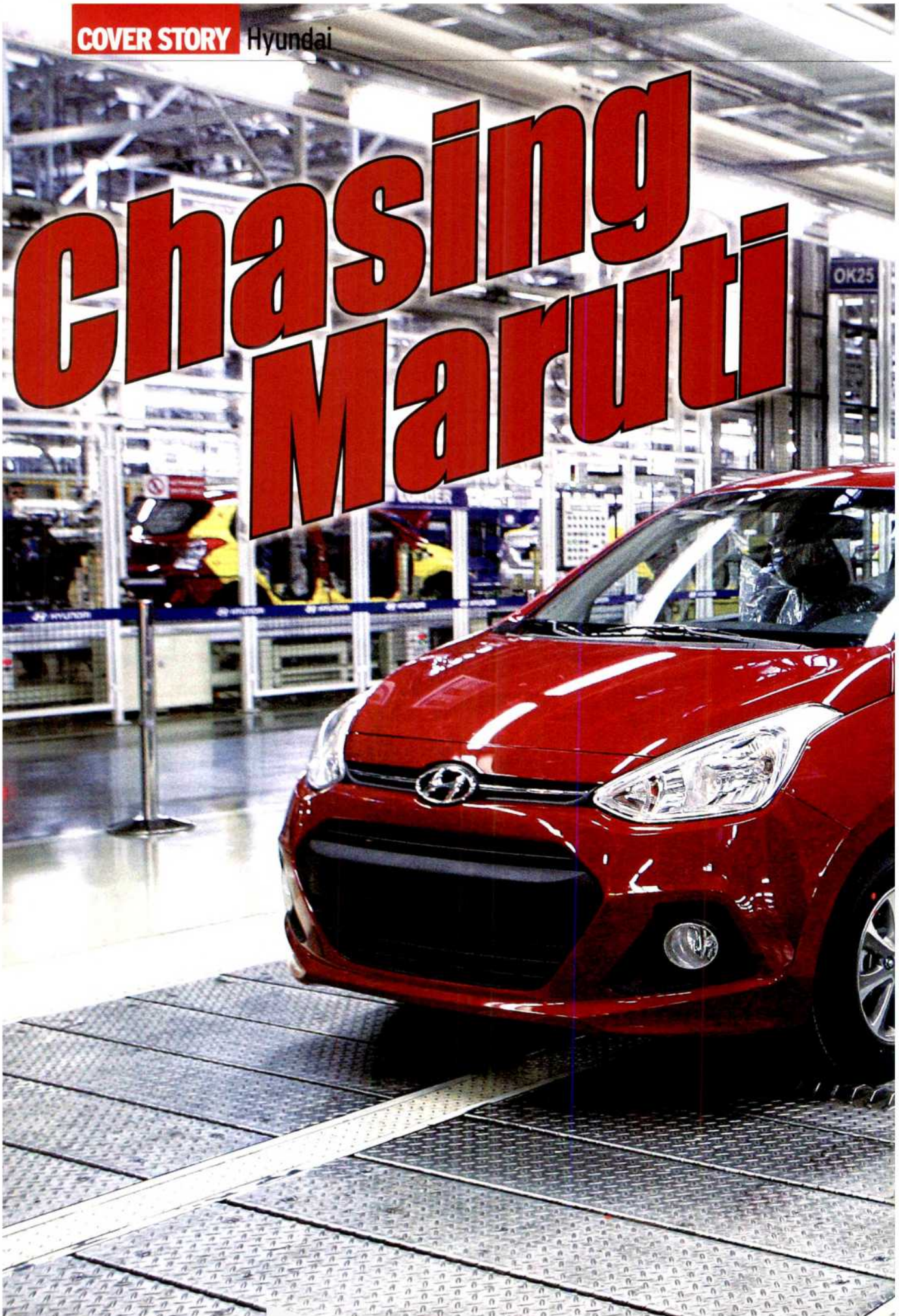
AVVENTURA

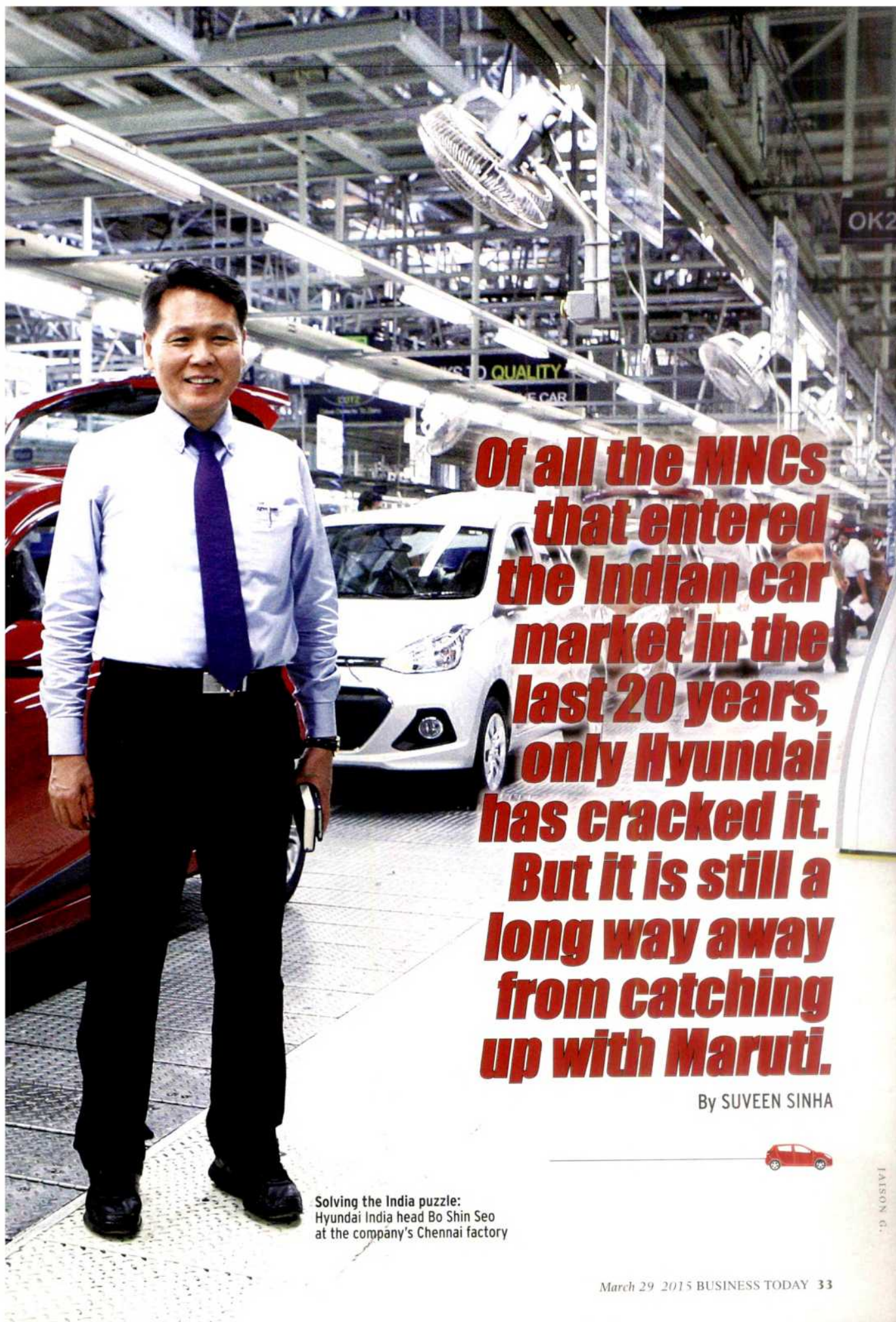
CONTEMPORARY URBAN VEHICLE

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COVER STORY Hyundai

chasing Maruti





**Of all the MNCs
that entered
the Indian car
market in the
last 20 years,
only Hyundai
has cracked it.
But it is still a
long way away
from catching
up with Maruti.**

By SUVEEN SINHA



Solving the India puzzle:
Hyundai India head Bo Shin Seo
at the company's Chennai factory

JAISON G.

S

ome conundrums Vishwa Bharti faces are easy to crack. There was this thin man who wanted to put on weight because he was about to marry a woman who could not be described as thin. A special diet took care of his problem.

Some are not that easy. It took Bharti four years to put a warring couple back under the same roof. The two had separated and the husband had turned alcoholic. He agreed to go into rehab on the condition that the wife would stay with him.

Bharti is Family Welfare Counselor at Hyundai Motor India's factory in Sriperumbudur, on the outskirts of Chennai, where Rajiv Gandhi was killed. Many of the big conflicts factory workers face start after marriage. In some cases, the wife happens to be more educated than the husband, who, fattened on the Hyundai salary, might have masqueraded as an engineer while the marriage parleys were on.

The company, apart from engaging Bharti, also employs a bunch of people to polish the apples served in the workers' dining hall. At times, mostly when the labour was restive, fruit flew through the air for they were found to be spotted.

Hyundai, as a company, understands the importance and consequence of conflict – not just because it has braved a long spell of labour trouble. It is a company whose bastion in India was built on the foundation of a conflict.

What a bastion it is! Hyundai ended 2014 with an all-time high market share of 22 per cent. It is still way behind Maruti Suzuki, which had a 15-year head-start, but is way ahead of the number three, Honda, which has just eight per cent. In 2014, Hyundai became the first company after Maruti to sell more than 400,000 cars in India. Breaking even early on, the Indian unit's profit has more than doubled in the last five years. Its capacity utilisation is 98.5 per cent on the installed capacity of 680,000. It has been the largest exporter of cars from India since 2008.

And what a conflict it was! Suzuki Motor Company of Japan and the Indian government battled fiercely for control of Maruti in the 1990s. The equal shareholders had fallen out over the choice of the managing director. Hyundai had nothing to do with it, yet it cannot deny that the fight may have something to do with how far the South Korean company has travelled in India.

Not Saying Anything

It was a short job interview.

In 1997, Maruti was making its first lateral hires. One



of the candidates was Rakesh Srivastava from cigarette maker GTC Industries. "How will you make the transition to cars?" asked Jagdish Khattar, Maruti's Managing Director at the time.

"There is only one difference," recalls Srivastava as replying. "Now I have to worry about smoke coming out front; if I join Maruti I will have to worry about the smoke coming out from the back."

He got the job.

Srivastava is like that. Words come out of his mouth in torrents. Now as Hyundai's head of sales and marketing in India – he moved over from Maruti in 2012 – he speaks with such passion about making his new employer the "most loved and most trusted" car company in the country, about customer satisfaction, and about keeping his channel partners (dealers, mainly) and suppliers happy that at times you may find your mind wandering. But every now and then he throws in something to pull you out of your reverie. Here are three things that stand out from two interviews with him:

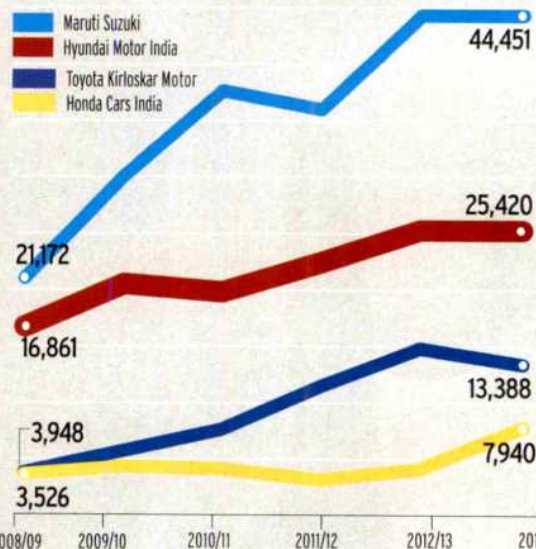
◆ "Every year, for a few years, we will enter a segment where we are not present, while refreshing existing models."

◆ "We will increase our market share by one percentage point every year."

◆ "When Hyundai came, Maruti had 70 per cent share of

ON STRONG GROUND

Hyundai Motor India's total income has risen at a steady pace...



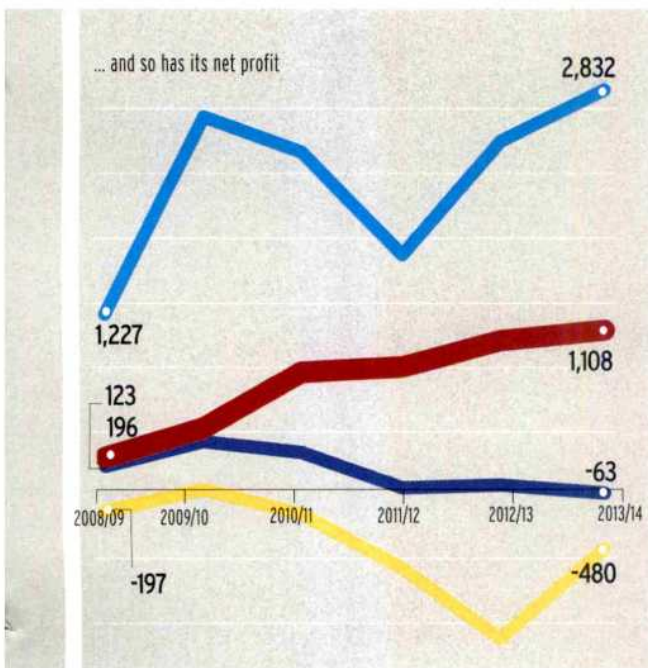
All figures in ₹ crore; Source: MoCA, Ace Equity



Eyeing the mass market:
Toyota India head Naomi Ishii

VIVAN MEHRA

Toyota has failed to crack the mass market despite entering it over four years ago with the Etios sedan and Liva hatchback



the passenger car market. Today they have 50 per cent. Our share has gone from zero to 20 per cent in the same period. I don't know who has gained at whose cost. I'm not saying anything... Let's see how the future turns out."

The market share numbers are slightly off the mark, and yet we have to take Srivastava seriously. Hyundai launched its first car in India, the Santro, on October 9, 1998. Maruti had 88 per cent share of the passenger car market in 1998/99. Next year, 1999/2000, it fell to 62 per cent. After touching a low of 42 per cent in 2011/12, Maruti's share has risen to 52 per cent this financial year, up to January 2015.

We are talking only passenger cars here, not utility vehicles, since it is only recently that Maruti has added a significant utility vehicle to its portfolio, the Ertiga, and Hyundai only has a high-end SUV, the Santa Fe.

There can be no direct correlation between the changing market shares of the two companies. The fall in Maruti's share was an outcome of the government's decision to open the Indian market to unbridled competition in the 1990s. It did not help that Maruti did not launch a single new car between the Esteem in 1994 and



CRUISING AHEAD Hyundai is the second-largest carmaker in India and sells more passenger cars than the next five automakers combined

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15*
Maruti Suzuki	326,523	397,586	344,463	273,884	275,031	357,866	417,179	456,298	549,317	618,168	636,707	765,533	966,447	855,730	861,337	890,455	797,070
Hyundai	-	75,690	86,719	87,822	103,536	129,472	141,821	157,701	194,870	216,307	244,030	314,967	358,904	387,168	382,851	379,555	342,303
Honda	-	9,698	10,015	10,921	13,288	20,459	35,680	40,869	59,452	59,373	50,173	61,329	58,951	54,108	73,182	133,321	123,005
Tata Motors	4,734	55,758	44,542	64,136	79,384	108,166	144,827	150,953	179,007	167,053	160,422	201,399	255,704	257,966	174,692	107,187	84,688
Toyota	-	-	-	-	-	10,685	10,873	9,660	7,784	7,197	8,582	10,140	19,225	90,969	72,000	56,865	49,932
VW India	-	-	-	-	-	-	-	-	-	-	-	4,094	51,607	78,275	65,386	52,525	36,582
GM	3,524	3,047	8,289	8,541	8,240	17,808	15,649	11,667	16,986	45,265	45,923	70,636	86,919	86,847	67,220	51,723	26,055
Nissan	-	-	-	-	-	-	-	-	-	-	56	207	12,567	32,978	35,549	22,618	23,078
Ford	3,233	8,023	17,922	15,131	15,385	21,025	24,845	27,047	39,820	30,969	25,196	34,324	95,395	90,423	75,771	38,829	19,661
Skoda	-	-	-	-	-	3,712	7,269	10,082	12,444	14,187	13,894	17,502	21,693	32,334	27,941	19,526	12,331
Fiat	-	20,751	9,370	21,277	25,936	10,428	5,417	1,245	2,234	3,437	8,087	24,804	21,112	16,073	6,413	11,980	7,902
Renault	-	-	-	-	-	-	-	-	-	-	-	-	-	3,597	12,887	10,367	3,031
M&M	-	-	-	-	-	-	-	-	-	-	-	-	-	17,839	15,344	9,734	2,528
Hindustan Motors	19,787	26,860	25,677	19,634	17,882	14,928	14,601	14,807	16,986	11,005	7,098	9,037	7,205	2,949	3,482	2,214	113
BMW	-	-	-	-	-	-	-	-	285	2,048	2,742	3,461	3,171	9,593	NA	NA	NA
Daewoo	10,121	40,217	42,960	6,406	-	-	-	-	-	-	-	-	-	-	NA	NA	NA
Mahindra Renault	-	-	-	-	-	-	-	-	-	25,891	13,423	5,332	10,009	Na	Na	Na	NA
Mercedes Benz	1,116	906	716	1,404	1,109	1,640	2,018	1,765	2,054	2,833	3,172	3,611	2,731	3,098	NA	NA	NA
VW-Audi	-	-	-	-	-	-	-	-	-	-	1,004	1,961	1,205	2,319	NA	NA	NA
INDUSTRY	369,038	638,536	590,673	509,156	539,791	696,189	820,179	882,094	1,081,239	1,203,733	1,220,509	1,528,337	1,972,845	2,022,266	1,874,055	1,786,899	1,528,279

Figures are domestic passenger car sales and do not include utility vehicles; *Till Jan 2015

Source: SIAM

the Baleno at the end of 1999 as its two major shareholders were too busy in court.

Maruti old-timers are known to sigh in private: "Had we launched the Wagon R earlier, there would have been no Santro." Albeit exaggerated, that's an apples-to-apples comparison. Both the cars are compact hatchbacks that like to call themselves Tall Boy. The fight between the government and Suzuki delayed the Wagon R's entry into India till 2000.

So, did Hyundai get lucky?

Rich Dad, Demanding Dad

"Luck comes to those who are brave," quips Srivastava. "There were others at that time but they were not lucky; maybe they were not brave enough... There are companies that have not made profits even after 20 years [of operating in India]. I don't know how they survive. Maybe they have a rich dad. My dad is rich, but also demanding."

He is referring to the raft of multinationals that entered India in the wake of the delicensing of the car industry under the automobile policy of 1993. From 1995 onwards, Indian roads had Daewoo Motor's Cielo, General Motors' Opel Astra, Ford's Escort, Honda City, and Mitsubishi Lancer running on them. Some of them had already existed outside India, but to the Indian consumer, who was until then fed on a steady diet of Marutis, Premier Padminis, and Ambassadors, they looked like celestial nymphs. And, to a large section of Indian buyers, just as out of reach. These were big, expensive sedans at a time

when purchasing power in the country was low.

The real revolution started once the small cars came in during late 1998 and early 1999: Hyundai's Santro, Daewoo's Matiz, and Tata Motors' Indica.

As the years went by, Toyota, Volkswagen, Skoda, Renault, Nissan, Audi, and BMW joined the race. Mercedes was already here. But of the entire lot that came to India in the last 20 years, only Hyundai has truly cracked the formula for success in the Indian mass market, and has emerged as the one true challenger to Maruti.

Maruti remains well ahead, but as Vikas Sehgal, the global head of automotive for Rothschild, points out in an accompanying column (*Global Gladiator*, Page 48), the race is closer once you move out of the smallest cars, which is Maruti Alto's fiefdom. For instance, the Grand i10 has created space for itself quickly; it sold more than 100,000 in 2014. The i20 was beginning to lose sheen, selling 69,000 in the year, down from 85,000 in 2012, but the Elite version has given it a boost. The Xcent, the compact sedan that replaced the Accent, notched up a handsome 51,600 in 2014. The Verna had begun to languish, its sales falling to 34,000 in 2014 from 56,500 in 2012, but the recent refresh will shore it up.

However, the Swift and its sedan variant, Dzire, give Maruti a tremendous boost. The two together sold more than 400,000 in 2014. The new little Celerio is doing well and the Wagon R is holding its own.

This rivalry is taking on new dimensions. Maruti's Ciaz has already presented a challenge to Honda City and



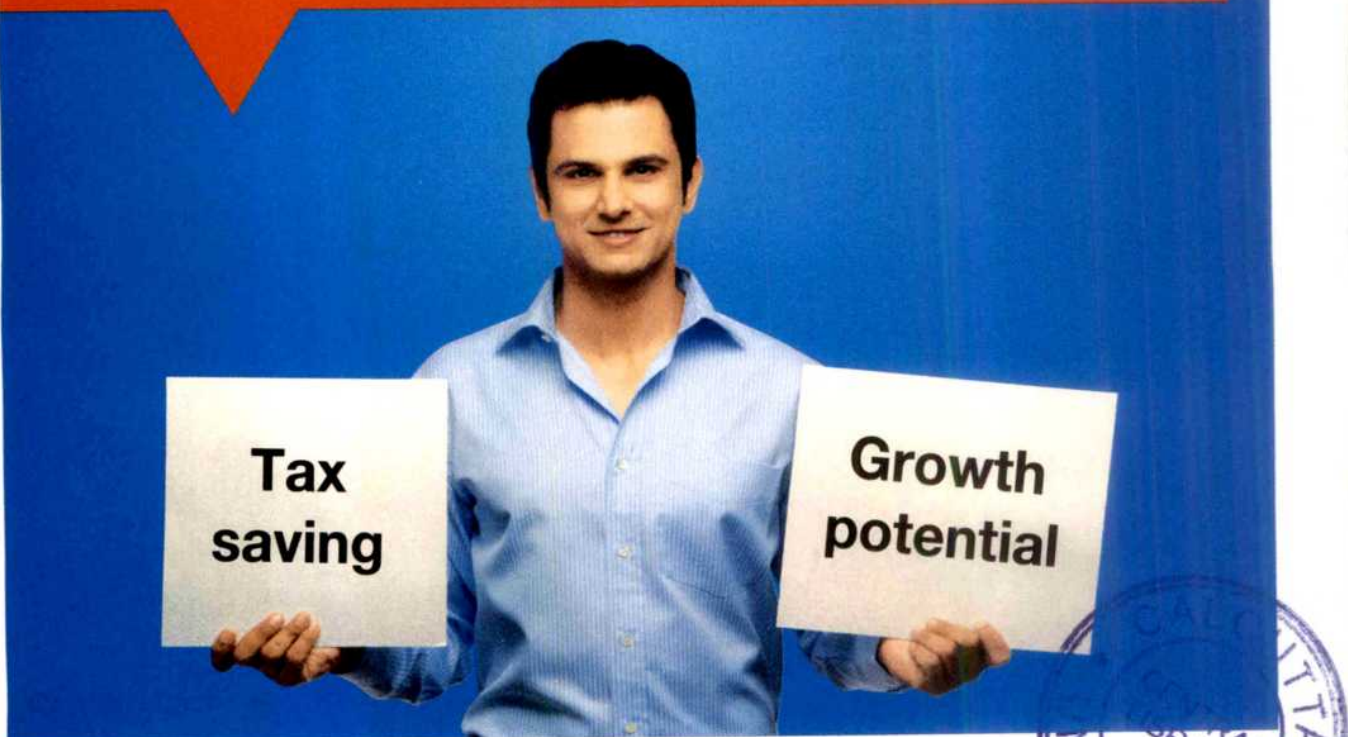
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LEADING THE CHALLENGE

Hyundai has made the biggest dent in Maruti's leadership position and now controls more than a fifth of India's car market

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15*
Maruti Suzuki	88	62	58	54	51	51	51	52	51	51	52	50	49	42.3	46	50	52
Hyundai	12	15	17	19	19	17	18	18	18.0	20	21	18	19.1	20	21	22	
Honda	-	2	2	2	2	3	4	5	5	5	4	4	3	2.7	4	7	8
Tata Motors	1	9	8	13	15	16	18	17	17	14	13	13	13	12.8	9	6	6
Toyota	-	-	-	-	-	2	1	1	1	0.6	0.7	1	1	4.5	4	3	3
VW India	-	-	-	-	-	-	-	-	-	-	-	0.3	3	3.9	3	3	2
GM	1	0	1	2	2	3	2	1	2	4	4	5	4	4.3	4	3	2
Nissan	-	-	-	-	-	-	-	-	-	-	0.005	0.01	1	1.6	2	1	2
Ford	1	1	3	3	3	3	3	3	4	3	2	2	5	4.5	4	2	1.3
Skoda	-	-	-	-	-	1	1	1	1	1	1	1	1	1.6	1	1	1
Fiat	-	3	2	4	5	1	1	0.14	0.21	0.3	1	2	1	0.8	0.3	1	0.5
Renault	-	-	-	-	-	-	-	-	-	-	-	-	-	0.2	1	1	0.2
M&M	-	-	-	-	-	-	-	-	-	-	-	-	-	0.9	1	1	0.2
Hindustan Motors	5	4	4	4	3	2	2	2	2	0.9	1	1	0.4	0.1	0.2	0.1	0.01
BMW	-	-	-	-	-	-	-	-	0.03	0.2	0.2	0.2	0.2	0.5	-	-	-
Daewoo	3	6	7	1	-	-	-	-	-	-	-	-	-	-	-	-	-
Mahindra Renault	-	-	-	-	-	-	-	-	-	2	1	0.3	1	-	-	-	-
Mercedes Benz	0.3	0.1	0.1	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.24	0.1	0.2	-	-	-
VW-Audi	-	-	-	-	-	-	-	-	-	-	0.08	0.1	0.1	0.1	-	-	-

Car market share in %; *Till Jan 2015

Source: SIAM

Hyundai's Verna. Hyundai has responded by launching a refreshed Verna. In keeping with Srivastava's assertion, it is also ready to enter new segments. It is preparing to launch what is called a compact, urban sports utility vehicle, a segment whose potential has been best utilised so far by Renault Duster. Once there, Hyundai might find itself once again staring at Maruti, which is working towards launching not one but two such vehicles. And then there is the small multi-utility vehicle segment. Maruti's Ertiga, which is having a good run there, will soon face a rival with a Hyundai badge on it.

With its focus on high-volume segments, Hyundai presents a nice contrast to Toyota. The Japanese giant came to India a year after Hyundai but chose to start with the utility vehicle, Qualis. The Qualis was a success, and its successor Innova even more so, but in a relatively small segment. Toyota has not been able to crack the mass car market despite entering it more than four years ago with the Etios line of entry-level sedans and its hatchback sibling, Liva. You should read Toyota's India head Naomi Ishii's interview - 'I have to admit we are not doing very well' - on Page 40 for more. In September, when we interviewed Ishii, Toyota's capacity utilisation in India, including production for exports, was hovering around just 50 per cent.

Back when the two companies came in, Toyota was

the brightest star of the global automotive sky. It was teaching manufacturing processes to the world. Books were being written on it.

Hyundai was the joker. In markets like the US, it was trying to make space for itself by pricing itself cheap. Some Japanese factory guards in India made you park outside the gate if you happened to come in a Korean car. Sehgal's column describes how things have changed. Hyundai is today the star of the global scene, with high profitability on a large volume. The Hyundai Group, which includes Kia Motors, is now the world's fourth-largest automotive company. Only Volkswagen Group, Toyota Group, and General Motors Group are ahead. Suzuki is not in the top 10. In India, it is not only other MNCs that fell behind Hyundai. Even home-grown Tata Motors, which was once going neck and neck with Hyundai, has faded away.

And that is not down to luck alone. Hyundai often sets the agenda.

They Did Start the Fire

Time was when Maruti felt no need to 'market' its cars. They enjoyed a long waiting list and were dispensed as favours. Older readers will remember a preponderance of white Maruti 800s in the 1980s and 1990s. Making more than half of its cars in white saved a lot of money for the company. The buyers, who were just delighted

Hyundai ended 2014 with an all-time high market share of 22%, way ahead of No.3 Honda's 8%



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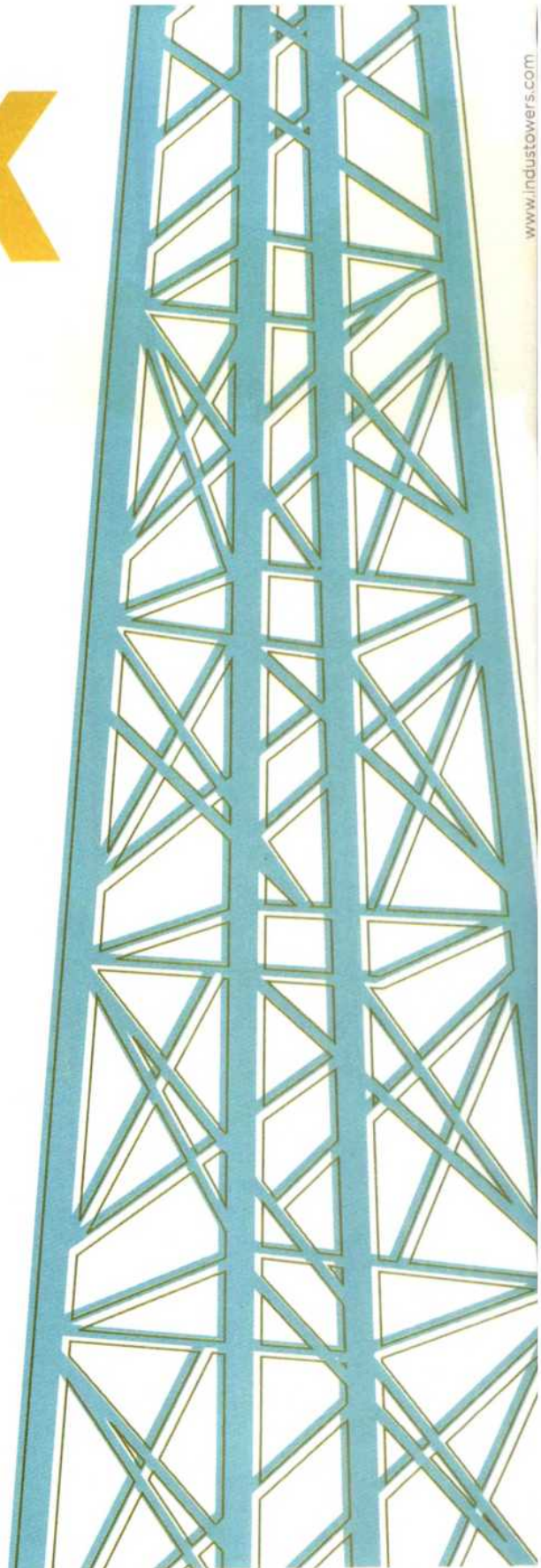
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Full interview with Naomi Ishii at
business today.in/toyota india-ishii

that their turn had come, would seldom bother to ask for a particular colour. They grabbed what came their way. The quality of the cars was below par and they were sold by arrogant dealers.

Hyundai set the ball rolling on customer care, service, and quality. It went to town about its technology. For the first time, we heard of MPFI (multi-point fuel injection, as opposed to Maruti's carburetors), which emitted lower emission and met Euro norms.

Maruti dug its heels in, but was forced by the Supreme Court to embrace the Euro norms, at considerable cost and loss of reputation. Suddenly, despite being the dominant player, Maruti was no longer setting the agenda.

In the early years, Hyundai India's public face was B.V.R. Subbu, an 18-year veteran of Tata Motors who moved to Hyundai at the time of its inception in India, first as head of sales and marketing and then president. A large man with an unruly moustache, he did not hesitate from taking on competitors – often, Maruti – directly. The norm in those days was to praise yourself in advertising, but never call the other guy bad. Subbu did not have much patience with norms.

One of his early victims was the Matiz, another small car that came to India around the same time as the Santro but was prettier. It was from Daewoo, Hyundai's fellow chaebol from South Korea. Daewoo's mistake was to have

Within six months of Santro's October 1998 launch, Hyundai became the No. 2 carmaker in India



an 800-cc engine in the Matiz.

Hyundai told everyone who cared to listen, and some who did not, that Santro's 1,000-cc engine made it far superior. Daewoo's people went blue in their faces trying to tell people that the peak power outputs of the two cars were close. But not many were listening.

The Matiz soon fell upon bad times because Daewoo faced deep financial distress. Its heavy vehicles division was sold to Tata Motors and the car unit to General Motors. General Motors took years to bring the Matiz back to India, as the Spark. By that time, the market had shifted.

With the Matiz out of the way, Subbu focused his considerable energy on Maruti. He started many fires. There was one about the power steering. Subbu said – when he said something, he said it loud enough – that the Santro's Zip Drive version was the first of the small cars to have a power steering, and that power steering was just what the doctor ordered for you.

I HAVE TO ADMIT WE ARE NOT DOING VERY WELL'

Naomi Ishii, the youthful head of Toyota's India operations, has a young man's candour. But he also sees the big picture. "If we don't do well in India, it will be a big problem for Toyota globally," he said, as he fielded questions – polite ones, but not all of them gentle – from Business Today last September. Shekar Viswanathan, Vice Chairman and Whole-time Director of Toyota Kirloskar Motor, or TKM, as the India unit is called, was at hand to step in for the more non-gentle ones. Edited excerpts:



What has changed since you took charge?

I involved workers' leaders in making mid- and long-term business plans. It gave them a sense of ownership. I made a broad plan and asked Indian leaders to come and look at it. In the past, there was no plan.

No plan?

I am not talking about the volume target. What kind of a company we want to be is my question to my Indian people. India will become a 20 million [cars a year] market by maybe 2030. If we don't do India and not think of the future, what will happen? Maruti Suzuki's share is now 45 per cent. If they can sustain this market share in 2030, their sales will be eight million. Together with export, it will make them very competitive. What should Toyota do? We have to engage with the Indian people here.

What kind of a company do you want to be?

Our competitors are already there. Doing just what they do is not Toyota's way. India as a country faces big challenges: it has to limit fuel consumption. Delhi is more polluted than Beijing. On fatal accidents, it is the worst globally. How can we contribute to solving these problems, instead of just growing sales, is a key element for Toyota. We need to introduce more fuel-efficient vehicles and promote hybrids and safety. The government should support us. There should be no unnecessary taxation.

You started operations in 1999. You ended 2013/14 with 5.2 per cent share of the market. A company like Toyota does not live with 5.2.

We are working very hard with our HQ in Japan to come up with a business plan for up to 2020.

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There was another fire about the true five-seater car. Hyundai's advertising said Maruti's Alto and Wagon R – both high-volume small cars – were four-seaters since they had only two rear seat belts. The Santro – you guessed it – had three in the back and that made it a five-seater.

The Coy Chromosome

Naturally, Hyundai figured prominently in Maruti's internal discussions. In the early noughties, Maruti insiders felt that competition had finally come to their doorstep.

Within six months of Santro's October 1998 launch, at a price that pitted it directly against Maruti's Zen,

Hyundai acquired a new design philosophy in March 2011, with the new Verna, calling it Fluidic Sculpture



Hyundai became the second-largest carmaker in India. In 15 months, the Santro outsold the Zen.

Once Santro flew, Hyundai started planning for its next move, the entry-level sedan that came to be called Accent. Before its launch, Hyundai imported 35 of those cars and gave them to a chosen few – businessmen, bureaucrats, high-net-worth individuals – to drive. Their feedback was incorporated in developing the car for India.

Accent became an instant success. It was launched around the same time as Ford's Ikon. The Ikon met with some success by Ford's standards. General Motors' Opel Corsa, in the same segment as these two, flickered for a while before the entire Opel line was stopped in India in favour of Chevrolet. Fiat Siena sank after a while.

Maruti continued to enjoy large volumes – as it does today. But it was always self-conscious and shy. Many of its people believe they were the first to put power steering in a small car, a Wagon R variant. But they thought it was not quite right to talk too much about it if they were not offering it in all Wagon R variants.

The Santro had it only in the Zip Drive version, but Hyundai put Shah Rukh Khan – who had become its brand ambassador early on and continues to be to this day – in it and made him zip around town.

You may have noticed that Maruti has had a new design philosophy starting with the Swift in 2005. Since then, most of its cars have been muscular, curvy, and sporty. But then, you may not have noticed it because you would not have heard much about it. Hyundai acquired a new design philosophy in March 2011, with the new Verna, called it

customer could make an impact on the car market share. Now we have two customers: one the government, and two the real buyer. Regulation is the pace maker.

Everyone operates in the same environment. How will you increase market share? If you are five per cent when India is at 20 million, Suzuki will be at eight million and you at just one.

We have to make [the most of] the existing products so we can enjoy a high RoI (return on investment) model by model. We have to enhance our product planning. We are enhancing our sales operation. We were number one in the JD Power sales satisfaction survey. We overtook Maruti. We are number one on dealer satisfaction, too. This means we are satisfying both the dealer and the customer.

The Etios was launched in 2010. How has been your experience of the mass market with Etios and Liva?

In the eight months I have been here, our volume result is not as we expected. We adjusted the sales target looking at the reality, and to not lose money. We again looked at the market by city and by customer. We found a big potential in customers who are not necessarily attracted to fancy cars, but to quality and service. This strategy is working well. I see good signs. But I have to admit, even though we are doing very well, that is based on the revised volume target.

What was the original target?

When we first launched the Etios, we put up a 70,000 plant capacity, raised it to 120,000, then to 210,000.

So you expected sales to rise accordingly?

Yes.

What is the revised expectation?

Since this May, the sales target is hitting the plan, hovering between 11,000 and 12,000.

If customers are happy with the Etios, why are more people not buying it?

We have to share the experience of happy customers. That is what we are doing, city by city.

Toyota is known for its processes. Books have been written about them. When you came to India and examined the Indian operations, what did you find?

Even though we had a difficult time in our factory, performance-wise and capability-wise they are so good. The mindset is the only problem. I found two issues. We needed to improve a little bit as a company.





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Fluidic Sculpture, and made sure everyone heard about it.

It is only now that Maruti is waking up to this. For instance, it has started to label its new engines. But it still lacks the natural instinct of a bird of prey. A Maruti man is more likely to say: "It's just a little switch and a bit of curves. What is the big deal?" A Hyundai man would say: "Let's give it a name, put it in a television commercial, and call a press conference."

This attitude shows up in internal workings, too. A few months ago, a young man in Hyundai's marketing team had to go to Australia on work. He was handed his tickets even before the bosses had signed the approval papers. This

Hyundai can switch from one model to another and from one fuel to another very quickly as the market demand changes



young man's boss shudders to think what would have happened if he had done such a thing at his previous employer, a Japanese company. "I would have first had to go through several layers of approvals armed with presentations on the cost and benefits of the Australia trip."

More Than a Copycat

With not a shy bone in its body, Hyundai chased Maruti everywhere. There was a time when lenders were shying away from giving car loans. Maruti tied up with the State Bank of India to offer special packages to its buyers. Hyundai soon had its own tieup.

Maruti began a thrust on the rural markets in 2009 that increased the share of rural in its total sales from 10 per cent to more than 30 per cent. Hyundai started it in 2011 and is targeting 20 per cent of its sales from rural areas. Maruti decided to set up an R&D facility in India, so did Hyundai.

Srivastava is not Hyundai's first sales and marketing head to come from Maruti. His predecessor, Arvind Saxena, too, had come from Maruti. Several others have moved at more junior levels.

Still, Srivastava's fantasy of catching up with Maruti will have to wait. Maruti has been growing in a stagnant industry, just like Hyundai, and thus increasing its market share. It is on course to sell more cars this financial year than ever before, beating its 2010/11 high of 1.13 million, and has increased its market share from 50 to 52 per cent in passenger cars. What's more, it has just laid the founda-

The car business has a lot of functions: manufacturing, sales and marketing, customer care, human resources. How to make them one team was my big concern. Sometimes you see communication problems – a silo mentality.

You came into India one year after Hyundai, two years after Honda. You are far behind both. You must be restless. It has been 15 years.

Shekar Viswanathan steps in: At one stage we were far ahead of Honda. There will always be these cycles and we have to accept them. Of course, we want to get ahead. But what we are aiming for is something else. It is not just the numbers or market share that will make us happy. Ultimately, we want to be judged qualitatively: whether the customer is happy, whether we get repeat customers for our products. These nuanced parameters are more important to us, rather than competing with Maruti, which already has 45 per cent share. That is not our aim.

That would have sounded so much better if you had 20 per cent market share, not 5.2.

Naomi Ishii: I am happy to hear such high expectation. It really motivates me. If I were you, I would say the same thing. As Toyota, once we enter a market, we have to establish a certain level of presence. Compared to the expectation of stakeholders in India, I have to admit we are not doing very well. This is a fact. I really want to expand the business in India. But we need time. As you know, the car business has a long lead time. From planning a vehicle to developing the vehicle and preparing for manufacturing takes four to five years. In that period somehow we have to survive. What I have decided is to enhance operation: sales power, customer service, manufacturing, HR – everything, so we can be competitive. My objective is to make this company profitable even though we don't have a new model.

Why was everyone waiting for Naomi Ishii to come and start a new model programme?

Viswanathan: We were entering one of the most competitive segments [with the Etios]. We built a new facility. We were confident of doing well. In the meantime India tanked. We still decided to expand [capacity]. We said India was a growing market, we could do this. But then you know what happened to India. The GDP growth fell. The car market started going down. There was a policy paralysis and a rating downgrade threat. The MD or board cannot go against this situation and get new products. Some other companies did, but they were at a different stage in their investment cycle. Now things are changing. We have plans. We will manage month-to-month and then ramp up.

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tion for a factory in Hansalpur, near Ahmedabad. It will invest ₹8,500 crore in phases for a capacity of 750,000 units a year.

The onus is now on Hyundai to follow suit. As the Indian car market is forecast to double to five million a year by 2020, Hyundai has to increase capacity to safeguard its market share, since its existing capacity is already fully utilised. The alternative could be to shift export output to feed the local market, but that comes with limitations.

It may not be a bad strategy to follow the leader, but Hyundai does not merely stop at that. It often sets the agenda. Not the least of them in manufacturing.

Heart of the Matter

Bo Shin Seo, the head of Hyundai India, is a tall and fit man, though he may need to work on his standing posture. He comes to work, at the Sriperumbudur factory, at 6.30 in the morning. The first thing he does is to turn on his computer and check email. A few minutes later, he goes to the shopfloor. Since the factory works round the clock, he finds enough people there to chat up. He also talks to managers and the housekeeping staff.

Seo has picked up a bit of Tamil – very little, but enough to revive the spirits of the workers, some of whom might be just finishing the night shift. “I ask them if there was a problem last night. I ask them how things are at home, how their family is.” Seo is an out and out production man and distinguished himself at Hyundai’s Alabama plant in the United States before being sent to India. But he has made it a point to engage with people. “More than 80 per cent of the leaders at the factory are Indian. On shopfloor, all departments are run by Indians. Koreans are only coordinators. I have a strong philosophy, ‘the Indian factory should be run by Indian leaders’”.

The Indians have responded. They make suggestions nearly every day to improve the work area: the ergonomics, quality of parts, systems, productivity, safety, and so on. “We saved more than ₹40 crore last year alone through 4,000 small projects,” says Seo.



HYUNDAI IN MY HEART

Shah Rukh Khan’s association with Hyundai India is an example of successful brand ambassadorship. The actor has grown with the company and moved from Santro to i10 to the family sedan, Xcent. He answered questions on email through Hyundai’s corporate communication department:

What made you choose Hyundai?

I was approached by Hyundai 16 years back to endorse Santro. That brought with itself a uniqueness that suited Indian families and was different from what Indian roads had seen. Over the years, Hyundai has built a trust among people to make the car as per their aspirations.

How do you see the company’s evolution in India?

Hyundai gave the common man the power to own a stylish and technologically advanced car. They keep reinventing themselves and have made speed and innovation a part of their DNA. Hyundai will always be very close to my heart.

He does all this because he has another strong belief that the factory – the first plant, started in 1998, and the second, started in 2007, together have 9,500 employees – is Hyundai’s heart. It is uniquely flexible. Four models can be made on one line. The company can switch from one model to another and from one fuel to another very quickly as the market demand changes.

There is a high level of automation, higher in the second plant, which is even more modern. All welding points are done by robots. So are most screws. In assembly, torque is critical. That’s the force that determines how tight a screw is. “Humans may sometimes make mistakes while welding, robots don’t,” says Seo. The testing facility was recently enhanced to make sure that “the repair stays in the system”.

The emphasis on quality has helped Hyundai prolong the life of its models. If you leave out pre-modern models like the Ambassador and Premier, Hyundai’s Santro and Accent bow only to Maruti’s models in longevity. Both continued to be in the market, and found buyers, much after their supposed substitutes – the i10 and Verna – had been launched. Even in 2014, nearly 30,000 Santros were sold. But the company would rather focus its resources on the newer models.

“The Santro has been a good product for a long time. But, in my opinion, it had been around too long. It had a non-luxury image. The newer models are much better in quality,” says Seo.

So, does he see Hyundai ever becoming number one in India?

“Number one is not important, what is important is the Hyundai brand. We have to be the most loved and most trusted company,” he says, sounding very much like Srivastava with a different accent. “Quantity is not important... Suzuki is a very small company.”

Looks like there is no getting away from Maruti Suzuki when talking about Hyundai. ♦

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COLUMN By **VIKAS SEHGAL****GLOBAL GLADIATOR***Hyundai's scale and profitability bode ill for Maruti Suzuki's dominance in India*

Automakers have to make choices. The opportunity for Hyundai in China and North America is massive. India comes only after those two. I am not saying that Hyundai ignores India, but a percentage point gain in market share in a developed market like that of the United States is far better than a similar gain in India. The US is about 17 million-a-year car market with an average transaction price north of \$30,000. India, on the other hand, is 2.5 million-a-year with an average transaction price of around \$9,000. Along the most critical Price x Volume (PV) dimension, India is dwarfed by pretty much every major market: China, Japan, Europe and North America. Even markets such as France, Germany, Brazil and Korea are a lot more lucrative.

In China, the average price of a car is inching past \$20,000. When the Indian market reaches the PV levels of France or Germany, the intensity and nature of the competition is likely to change dramatically. The Indian automotive landscape then will likely be dominated by Volkswagen, Hyundai, Renault-Nissan and Ford. Players such as

Suzuki might struggle to hold on to their dominant market position. As evident across markets, players such as Suzuki struggle once the major manufacturers bring their full might to bear. That said, it won't be fair to write off Suzuki given its current market position. However, as the Indian market evolves, the revenue and profit share of market might drift away from Suzuki.

Maruti Suzuki is selling well over a million units a year in India, but nearly 60 per cent of those are in the relatively low-margin, small car segment, or the 'A' segment. The rivalry between Suzuki and Hyundai is confined to cars larger than A+. In those segments, Hyundai is not far behind Maruti.

To a degree, Hyundai's position in India is driven by choice. For Hyundai, India is a part of one of the most enviable market portfolios in the world. Suzuki, on the other hand, relies on India to support its global portfolio. For Suzuki, in many ways, India is the portfolio.

Hyundai, given its global position, will make its decisions on investments in India based on the relative returns there vis-a-vis North America and China. If Hyundai wants more in India, it needs to

allocate additional capital and managerial resources. Although Hyundai's size and scale allow it to make simultaneous multi-billion dollar bets, a privilege shared only by a handful of players such as VW and Toyota, there are limits.

When India reaches the PV point that merits a dedicated and complete focus from Hyundai, one can expect a sea change. Hyundai, like other major auto makers, has the capacity to launch models at a rate that may not be possible for a player such as Suzuki to match. Hyundai's global scale allows it to spread its fixed cost across a wide spectrum, something that Suzuki just can't match.

Hyundai Group's reach is often under-appreciated. At seven million-a-year in vehicle sales, including Kia, it is larger than Ford, Honda or Nissan, and within striking distance of VW Group (9.9 million). Hyundai's 12 per cent EBITDA is matched only by the likes of Daimler and VW, and is next only to BMW and JLR. Ford and GM grapple with less than 10 per cent. Hyundai's margin is underpinned by some of the best operational metrics in the industry.

Most carmakers aim for 80 per cent plant utilisation, the level that often

makes them profitable. Hyundai's plant utilisation often touches 100 per cent. Similarly, Hyundai's platform efficiency (volume/platform) is a global benchmark.

Having a colossus like Hyundai give its full attention to India will not be good for Suzuki. Hyundai's scale allows it to deploy capital at a rate not possible for Suzuki. Hyundai's global positions allow it to, if needed, sustain price wars that are deeper and longer than Suzuki can sustain. In fact, Suzuki's reliance on royalties and profits from the India operations makes it especially vulnerable in a long-drawn price war, which is common in markets where global majors compete. Price wars and deep discounts are the norm in the US, Europe and increasingly in China.

Suzuki has the time to strengthen its position in India, while continuing to develop markets in other regions. However, the situation is likely to change in the not-too-distant future. The cooling of China, stasis in Europe, and saturation in the US could make India a darling of carmakers fairly soon. That will change the dynamics of the Indian market and the destiny of its current leaders.

The writer is Executive Vice Chairman, South and Southeast Asia; Global Partner and Sector Head-Automotive, Rothschild

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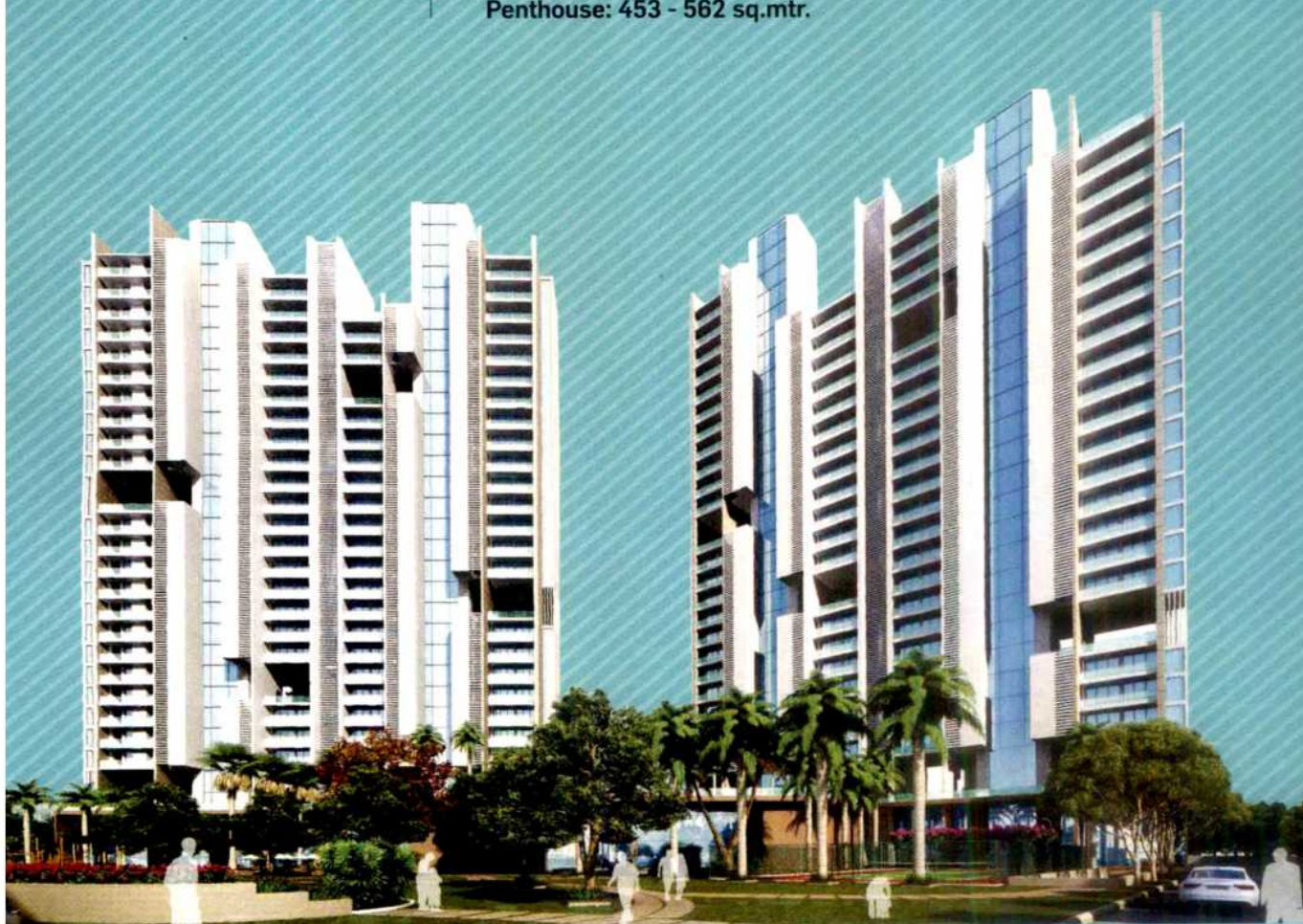
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AIJAY THAKURTI

It was in February 2014 that the board of International Asset Reconstruction Company (IARC) met in Mumbai to discuss the company's growth plan in the distressed assets market. They took a look at the big picture. The pile of bad loans in the hands of the Indian banks was huge and they were trying hard to improve their asset quality. For the fifth-largest asset reconstruction company in India (ARC), this meant more growth opportunities. IARC decided to chase large assets in the ARC space.

The logical next step was to look for resources to expand. A decision of the Reserve Bank of India (RBI) in December 2013 turned out to be propitious. The RBI had made a few key changes in the ARC regulation that opened the gates for private equity in the ARC market. It was around this time that the New York-based global investment firm KKR and Co was looking for a toehold in India.

For KKR, setting up a new ARC would mean at least 18 to 24 months just to get permission. The next feasible option was to pick up a

stake in any of the 14 cash-starved Indian ARCs. "The RBI wanted private equity (PE) firms to come into the ARC market at a time when we were scouting for partners to support our additional capital requirement," says Birendra Kumar, Managing Director and CEO of IARC.

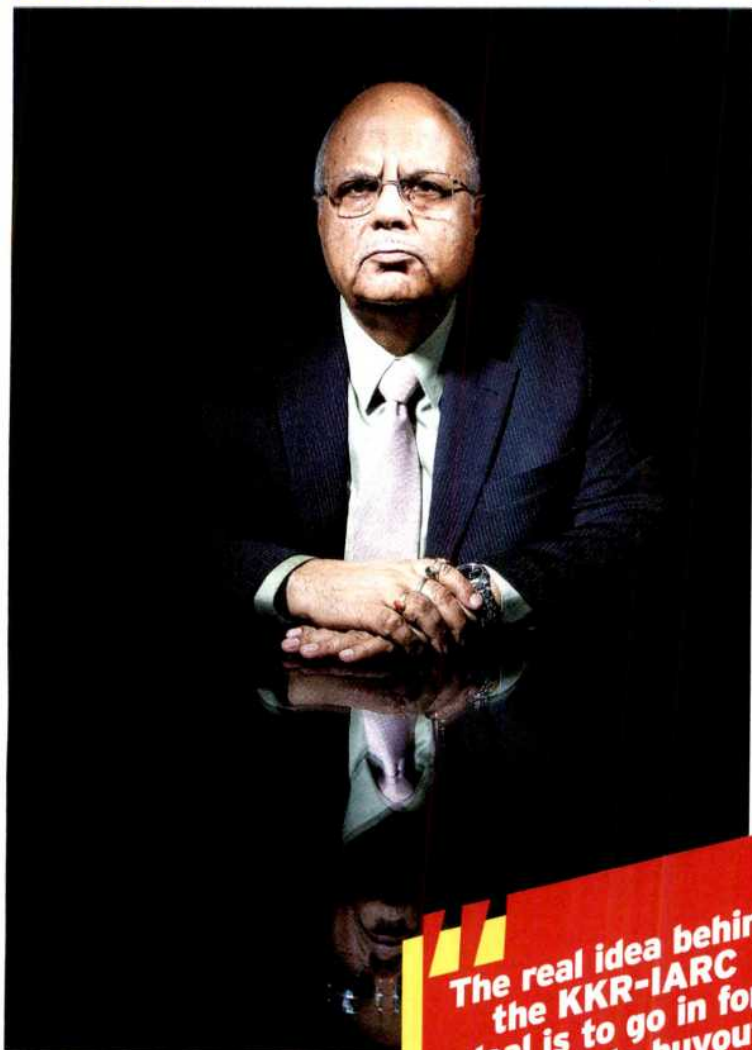
A senior industry official said that KKR wanted to enter the market on its own but the RBI wanted the company to enter quickly and ease the burden of banks. Looking for global partners with expertise and bandwidth, IARC found a perfect choice in KKR. The PE firm will initially pick up a 15 per cent stake worth ₹300 crore, which in the next three years will go up to 51 per cent.

In return, KKR will get a toehold in the ARC space with rights under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act). The Act gives the lender the right to acquire the assets of the borrower if it fails to repay within 60 days after a notice is served. The deal is likely to be ready by the end of 2014/15. "We are awaiting some government clearances, including an approval from the Foreign Investment Promotion Board," says Kumar of IARC.

This implies a front-door entry for PE players in the bad loan market. Recently, Hong-Kong-based SSG Capital Management had acquired a 49 per cent stake in Asset Care Reconstruction Enterprise (ACRE). While KKR did not say much about the deal, it did say that it is serious about the distressed asset space in India. "PE requires the teeth and ARCs provide just that, which is why they [KKR] have tied up with us. The real idea is to go in for a complete buyout of the distressed asset, take over the management and revive it, which is the international model," he says.

With KKR's fund infusion, IARC will be able to raise ₹2,000 crore from the market, too. "While we look for more business, KKR will bring with it global experience in risk

DANESH JASSAWALA



model, turnaround and underwriting. Capital will come from KKR, too," says Kumar.

The Role of PEs

PEs are often seen as predators but inviting them to the ARC space was the last option left with the RBI. The non-performing assets (NPAs) – restructured and stressed assets – had piled up to ₹6-8 lakh crore. The new capital needed to revive could only come from PEs as Indian banks are struggling with liquidity issues.

"With bigger players coming into the market, we can see more buyouts. Banks will also be willing to sell the assets if they get money upfront," says P. Rudran, Managing Director and CEO of ARCIL, the second-largest ARC by asset under management (AUM).

Fund infusion into ARCs would

help it pay upfront and get assets at a cheaper price. More funds at disposal means ARCs can wait for a longer period so as to increase the asset value. Also, PEs or non-banking finance companies (NBFCs) can give additional funding for working capital by priority funding or by fund infusion in equity capital.

The real idea behind the KKR-IARC deal is to go in for a complete buyout of the distressed asset, takeover the management and revive it, which is the international model"

BIRENDRA KUMAR,
MD & CEO, International Asset
Reconstruction Company

"Converting 26 per cent of the debt into equity is possible under the restructuring scheme. ARCs can cash upon such conversion after three to five years when the company revives. However, such cases aren't many and the ARCs do not have the capacity to wait for a long period," says Rudran. According to Kumar of IARC, due to fund crunch, ARCs often end up looking for smaller assets where settlement is the option. "When you look at large assets, we think of recovery and revival. Only when revival fails do we go on to acquire assets. With strategic investors like KKR, the mindset is to recover the asset by infusing more capital," he says.

Currently, the total outstanding security receipts of the ARCs is only about ₹52,000 crore. Of this, Edelweiss ARC, ARCIL and JM Financial ARC account for three-fourth of the market. (See *Room for Growth*). But even the RBI move to bring in PE firms won't see a large-scale shift in the crucial role played by ARCs in supporting the banks' NPAs. "The question is: are enough assets available to ARCs at the right price so that their [PE] return expectations are satisfied," says Siby Antony, Managing Director and CEO at Edelweiss ARC, the largest ARC by AUM. While there will be some deal wherein large funds look for and get large distressed assets, a majority of the NPAs will remain outside the purview of fund infusion, says Antony.

Another reason is that market regulations don't allow PE players a complete buyout of assets through the ARC route. "Today the regulations are not conducive. In India, management takeover is allowed but once you revive the asset you have to return the asset to the old management. There is no upside for the investors. There is no risk-based return," says Anuradha Unadkat, President and CIO, IARC. However, Kumar is confident that this norm will change soon. "We have made a

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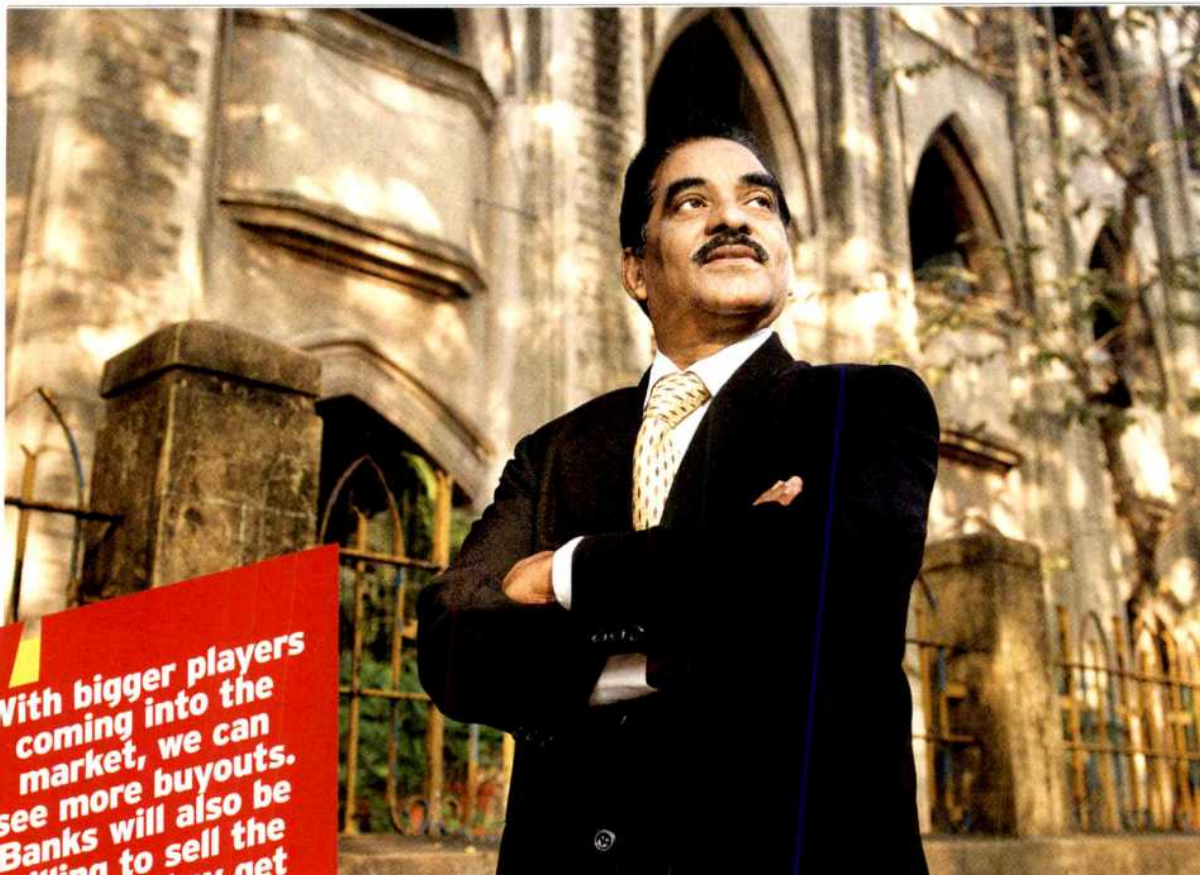
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BANKING Asset Reconstruction Companies



NISHIKANT GAMRE

With bigger players coming into the market, we can see more buyouts. Banks will also be willing to sell the assets if they get money upfront"

P. RUDRAN,
Managing Director & CEO, ARCIL

presentation to the RBI for this if we have to attract foreign money. I think the RBI is seriously considering it," he says.

In Budget 2015/16, Finance Minister Arun Jaitley has treated NBFCs with assets of ₹500 crore as financial institutions under the Sarfaesi Act. "Today ARCs will be able to buy assets from NBFCs," says Rudran. Though an indirect buyout is possible, Rudran says, until the regulations are not changed, a complete buyout in distressed market is not possible.

He also stressed the need for a level-playing field between NBFCs and ARCs. While ARCs are highly regulated institutions focused on asset recovery related business, the spectrum of activity for NBFCs is different,

says Rudran. Allowing full access to PE can definitely give a new lease of life to ARCs mainly because the RBI, in the last two years, has been tightening the operational parameters.

Initially, ARCs were allowed to buy assets from banks without paying anything in cash. ARCs used to issue security receipts (SRs) of the value of the assets to the banks. In September 2006, the RBI asked ARCs to put in five per cent of the value of the acquired asset. This was further revised to 15 per cent in August 2014.

The aim was to improve the ARC's stake in resolution of NPAs. But this became a deterrent in the sale of NPAs

by banks to ARCs, leading to a dip in the number of deals between banks and ARCs. According to the ARCs, banks are not agreeing to bring down the valuations even when ARCs are paying three times more than what they were required to pay earlier.

"Earlier, in five per cent you could buy assets for 80 cent for a dollar. Now you can't. It would depend on recovery potential and second the management fee will depend on the lower range of the Net Asset Value (NAV). You have to get additional funding," says Kumar of IARC.

The RBI raised the capital requirement because ARCs still managed to make easy money and the real purpose of reconstruction was defeated. ARCs get 1.5 per cent as AUM fee, which meant on a five per cent investment they were making a 30 per cent rate of return in fee. With the increase in capital investment, this has dropped to 10 per cent.

Also, earlier ARCs could recover the AUM fee based on the outstanding amount but now it is based on

₹2,000 cr
Amount IARC will be able to raise from the market after the fund infusion from KKR

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FORM - IV

Place of Publication: New Delhi

Periodicity of its Publication: Fortnightly

Printer's Name: Ashish Kumar Bagga

Nationality: Indian

Address: Ashirwad, A 4/2, DLF City, Phase I, Gurgaon - 122002

Publisher's Name: Ashish Kumar Bagga

Nationality: Indian

Address: Ashirwad, A 4/2, DLF City, Phase I, Gurgaon - 122002

Editor's Name : Prosenjit Datta

Nationality: Indian

Address: D-189, Vivek Vihar, Delhi-110095

Names and Addresses of individuals who own the newspaper and partners or shareholders holding more than one percent of the total capital:

Owner: M/s. Living Media India Limited, K - 9, Connaught Circus, New Delhi - 110001

Shareholders holding more than one per cent of the total capital of the owner company:

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"Today recovery becomes an important factor. With increasing contribution, selling banks are not reducing their reserve price. They need to bring it down," says Rudran of ARCIL. Antony of Edelweiss ARC underscores it by pointing out that the biggest challenge for an ARC is capital. "The cost of capital for them is high. Return expectation is a function of the cost of capital for an ARC. All players look for returns upwards of 25 per cent. In that sense return expectation of 20-22 per cent is reasonable and thus valuation will change and pricing will depend on the ability to recover," he says.

So today ARCS need additional funding and that's where PEs and NBFCs come into relevance. In 2013/14, the principal outstanding amount was 70 per cent, which means if the asset was worth ₹100, banks were selling the asset to ARCs at ₹70.

Today due to the 15 per cent mandatory investment by ARCs, banks will have to lower their prices.

They will have to sell the same asset at ₹50. "For a 20 per cent internal rate of return (IRR), the acquisition cost was 70 per cent for the industry. Despite that ARCs were left with money on the table. Today with the new norms if ARCs have to maintain an IRR of 20-22 per cent, pricing of the asset has to change," says Rudran of ARCIL.

Meanwhile, the ARCs have become more choosy in asset buys and capital allocation. This has slowed down the rate of deals forcing the NPA sellers to make the asset price more realistic and attract ARC capi-

tal. In the last six months, banks have not been selling distressed assets and the NPA levels are going up. It is not that banks don't want to sell. Their worry is if they sell an asset at 50 to 60 per cent discount, then the branch manager will be asked how he/she lost 50-60 per cent of the asset value.

"Sooner or later the lid will blow as banks can't sit for a long time with superficial reserve prices," says Kumar. "The ARC was always a deep-pocket game. The problem was because players had shallow pocket the unfair practice of management fee came into effect and banks too weren't bothered as they were able to

ROOM FOR GROWTH

The total outstanding security receipts of the ARCs are minuscule at about ₹52,000 crore

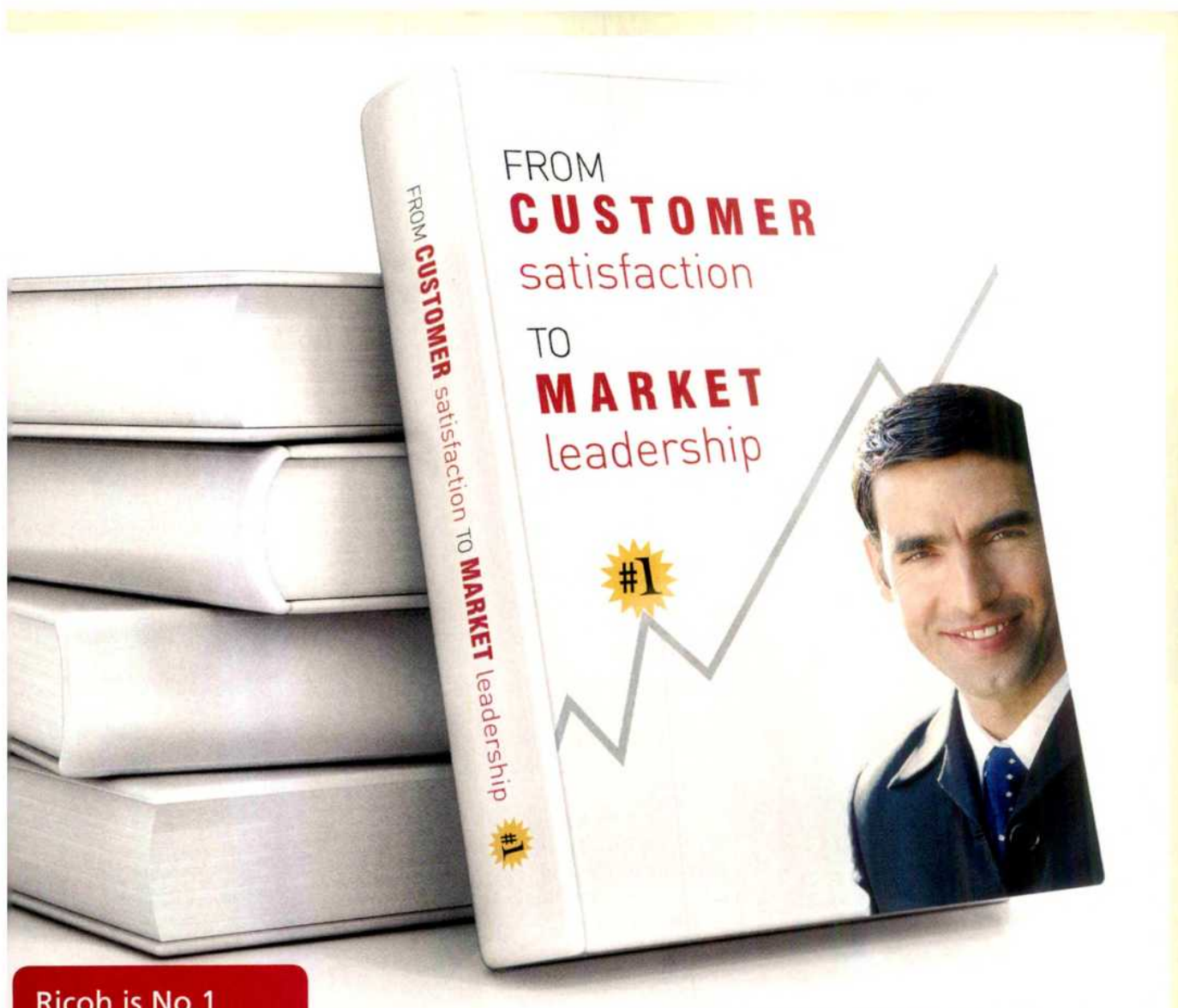
ARC	AUM
Edelweiss ARC	18,000
ARCIL	10,000
JM Financial ARC	8,000
Others (11 players)	16,000
Total	52,000

ARC: Asset Reconstruction Company; AUM: Assets Under Management in ₹ crore, figures are approximate; Source: Company, Industry

push their bad assets and get money. They did not look if the asset is redeemed or not."

With banks raring to increase liquidity and with the entry of PEs, it is only a matter of time when pricing expectations get aligned and deal-making picks up. The need for more capital together with the restriction on complete buy-outs means that funds will flow through the ARC route is the more likely outcome than a shake-out or consolidation within the sector. ♦

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Winds of Change

SpiceJet has to deal with a host of legacy issues before it starts to fly high again.

By MANU KAUSHIK



Back in the saddle:
SpiceJet's Ajay Singh

Ajay Singh is a man on a mission. Singh, who co-founded SpiceJet in 2005, emerged as the airline's saviour in late December after the low-cost airline came close to shutting down. He is now spending roughly 13 hours a day at work trying to put the airline back on its feet. Operating out of the first floor of SpiceJet's Gurgaon office, Singh is trying to reverse some of the big steps that were taken by the previous management, including the decision to introduce 78-seater turbo-props by the former CEO Neil Mills.

But the turnaround won't be easy, given that the airline has a slew of legacy issues. Its problems include two types of aircraft in its fleet, a pile of dues, a high employee-plane ratio, mounting losses and a brand image that has been hurt in recent months due to a series of flight cancellations and passenger dissatisfaction.

As a first step, SpiceJet has to move towards the low-cost car-

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rier (LCC) model. Globally, successful LCCs such as Southwest Airlines, Ryanair and JetBlue have followed the one-aircraft model. SpiceJet, even though it is an LCC, has two types of aircraft - Bombardier Q400s and Boeing 737s.

SpiceJet bought Q400s in 2011 for short-haul flights connecting large cities - Hyderabad, Delhi, Chennai - with regional hubs as many airports in these smaller towns were not capable of landing large aircraft. For instance, air-

are there. I have to see how best I can use them so that they are profitable for the company," says Singh.

Also, SpiceJet owns these Q400s, unlike the Boeing 737s that it has leased. So, the company cannot return the Q400s and the options it has is to either sell or lease these jets. For now, the Q400s have been included in the summer schedule because Singh doesn't want to create a vacuum all of a sudden. "These planes can be sold. Let me see if I can

schedule, the airline has suspended services to six cities, including Belgaum, Indore, Aurangabad, Lucknow, Surat, and Thiruvananthapuram. "Around 30 per cent of the routes were not profitable to operate. A large number of those routes have been removed in the revised schedules," says Singh.

At the same time, it has added more flights to a number of domestic sectors such as Delhi-Amritsar,

Bangalore-Mangalore, Delhi-Jaipur, Delhi-Udaipur, and Hyderabad-Tirupati, among others. "SpiceJet has to completely restructure its route network, and Singh and his team will have to set this right at the earliest," says Kapil Kaul, CEO (South Asia) at aviation consultancy CAPA.

Since last year, SpiceJet's daily departures are constantly moving up and down. Till last July, there were some 345 departures,

which have come down to 209. The departures will increase to 280 in summer as the fleet size will reach 40 with the addition of more Boeings. "We want to increase the fleet to 46-47 in the winter schedule depending on demand. The expansion is happening on the Boeing fleet," says Singh.

Starting Afresh

Singh's turnaround plan for SpiceJet has gained momentum over the past few weeks. On February 23, the entire 58.46 per cent stake of media baron Kalanithi Maran and Kal Airways Private Ltd in SpiceJet was transferred to Singh. The deal has also received approvals from the civil aviation ministry and the Competition Commission of India.

The regulatory clearances were followed by Singh pumping money into SpiceJet, which was used to

SPICEJET'S REPORT CARD

	OCT '14	NOV '14	DEC '14	JAN '15
PASSENGER LOAD FACTOR*	80.1	86.9	86.7	80
ON-TIME PERFORMANCE^	83.3	78.3	64.2	49.6
CANCELLATIONS#	0.64	16.12	31.95	3.75
PASSENGER COMPLAINTS~	1.2	1.6	3.1	5.6
MARKET SHARE#	10.27	8.76	6.71	5.87

Source: DGCA *Percentage of available seats occupied by passengers in a given month
^For Bangalore, Delhi, Hyderabad, and Mumbai; #In per cent; ~Number of complaints per 10,000 passengers

ports at cities like Dehradun and Dharamshala have runways capable of handling only small aircraft (ATRs and Q400s). Moreover, Q400s made sense because they are fuel-efficient. Without realising that it could potentially increase the overall costs in the long term, SpiceJet placed an order for 30 such aircraft.

Today, it has 15 of these jets in its 32-strong fleet. The problem is that a fleet containing two different types of aircraft increases operational, financial and managerial complexities. For instance, an airline needs to keep different sets of pilots, engineers and crew; different contracts and additional cost of maintenance, repair and overhaul (MRO). "If I was there, I would not have bought them. Now that they

first make money from them. If I sell them, I don't know what price I will get. We will have to consider everything," he says.

Amber Dubey, Partner and India Head of Aerospace and Defense at global consultancy KPMG, says the aviation industry in India and Asia-Pacific is seeing growth of regional carriers. This may provide SpiceJet a chance to sell or lease out the Q400s, though it may take some time to address the contractual issues.

In order to be profitable, an LCC should fly to only a few airports and build frequencies on those routes. SpiceJet, which recorded a net loss of ₹275 crore on revenue of ₹1,311 crore in the quarter ended December 2014, earlier operated at several airports that had only a handful of daily flights. That is changing now. As part of its proposed summer

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"SpiceJet has to completely restructure its route network, and Singh and his team will have to set this right at the earliest"

KAPIL KAUL, CEO (South Asia), CAPA

clear statutory liabilities – service tax and tax deducted at source, employee salaries and bank debt. Currently, all salaries are paid on time, he says. Since the change of ownership, SpiceJet has seen infusion of some ₹500 crore from Singh. As per the plan, the airline will get ₹1,500 crore of fresh infusion in three equal tranches of ₹500 crore by the end of April. Singh says he doesn't have any partners right now. "I am the only investor. The equity belongs to me and I am the only person involved. For the subsequent pieces of infusion, there are offers from both equity and debt investors. The stock price is low now. We have to take a call on whether we want to infuse equity at this stage or do we need to wait for a while," he adds.

The airline still owes around ₹1,000 crore to vendors and lessors, as well as engineering payments and some airport dues. Singh says he is working with these partners to draw a payment plan. "It is tough to put a timeline now [on the repayment schedule]. We are hoping that in the next one quarter we will arrive at the settlement regarding payment plans," he says.

Besides repaying dues and rationalising its network, SpiceJet is

working on other areas to bring down non-fuel costs. It has rationalised its workforce. However, more needs to be done. As per the global LCC standards, an airline should not have more than 90 people per aircraft. In early 2013, this figure stood at 140 for SpiceJet. It has been brought down now. In the summer schedule, it will be 95-97 people per aircraft, according to Singh, who adds that "some people have been asked to go, some have gone by themselves."

A major factor in SpiceJet's favour is the drop in aviation turbine fuel (ATF) prices. ATF prices, which account for some 45 per cent of costs, have declined by over 34 per cent since October 2013. Lower ATF translates into 13-15 per cent reduction in an airline's overall costs.

One of the main reasons that brought down SpiceJet under Marans was the frequent flash sales – fares offered at lower rates to drive ticket sales. It seems that even the new promoter is following the same path. Since January 28, there have been six flash sales by SpiceJet, the most recent being the "Colour the Skies" offer for Holi where tickets for domestic flights are sold at ₹1,699 and international flights at ₹3,799. A total of 1,00,000 seats are on offer under this sale.

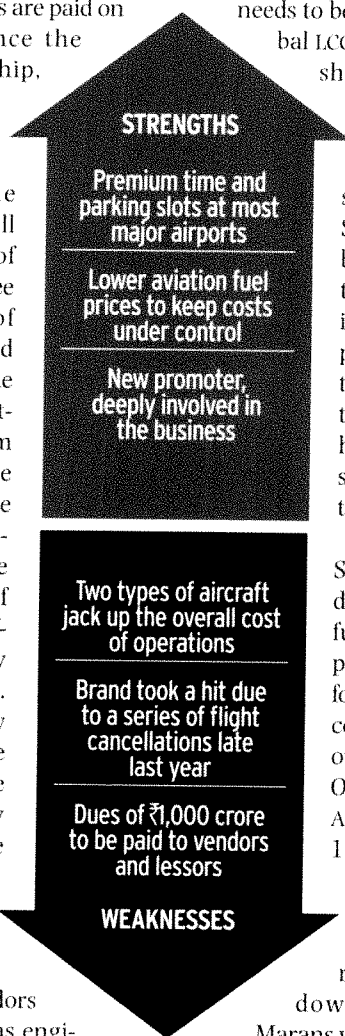
Singh says these are the seats that would otherwise remain unsold. "It would not be more than four to five per cent of total seats. Also, [flash] sales are an interesting way of stimulating demand. Due to suspension of service, the carrier had become a little unreliable. People had stopped thinking of flying on SpiceJet. These sales allowed people to sample SpiceJet again," he says.

Meanwhile, investors have shown a renewed interest in SpiceJet's stock. Since the beginning of 2015, the stock price has jumped about 31 per cent. The investors are looking at the growth potential of the aviation market in India. The total passenger traffic is likely to surge from 101 million in 2014 to 367 million in 2034, the trade group International Air Transport Association (IATA) estimates.

In January, the airline's passenger load factor (PLF), an industry term for measuring seats occupied as a percentage of total available seats, was at 80 per cent, which was the lowest in the last six months. Singh is hopeful that the PLF in February is going to be in the mid-80s. "Our on-time performance is going to be one of the best in the industry. Every flight which is delayed by even five minutes needs to be reported to me. I am getting regular text messages. When people know that I am looking at each flight, then everybody tries to be careful. Once you see flights follow schedules, you see improvement in bookings," Singh says.

In his previous stint of poll campaigning with the BJP, Singh helped the party to reach new heights. He hopes to revive the airline's fortunes in the same fashion. ♦

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Cumbersome rules, process delays and rampant corruption clog India's drug regulatory structure, but G.N. Singh is trying hard to initiate change.

By E. KUMAR SHARMA

Drug Controller, Heal Thyself

In November 2013, the Indian Pharmaceutical Alliance (IPA) queried 13 drug makers about their pending applications to market new generics. "About 30 per cent of the applications had been stuck for over six months," says D.G. Shah, Secretary-General, IPA. "The industry suffers because, in a price regulated market like ours, it is new products

that drive growth. People are also deprived of access to new medicines and the benefits of competition, because of such delays."

While the incident includes only a small sample of drug makers, it still indicates the challenges that pharmaceutical companies face in India. Every aspect of the pharmaceutical industry's dealings with its central

Lying in agony: Patients recovering at CIMS Hospital in Bilaspur, Chhattisgarh after complications following a sterilization operation.



PHOTOGRAPH BY MANDIAR DEODHAR

11 WOMEN

died after they were given poor quality drugs following a sterilization operation in chhattisgarh last November

regulator, the Central Drugs Standard Control Organisation (CDSCO), a division of the Ministry of Health and Family Welfare, headed by the Drug Controller General of India (DCGI), is mired in delays. To worsen matters, companies often need sanctions from state level drug regulators as well, whose procedures are just as dilatory. "The complete

approval process to merely expand production by adding a contract manufacturing facility takes between six to nine months and calls for much shuttling back and forth between the Centre and the concerned state regulator," says the founder of a leading pharmaceutical company.

The head of another pharmaceutical company maintains the entire

regulatory environment is discouraging. "A small clearance takes months unless you pay money," he says. "A bio-study clearance takes time while a clinical trial clearance takes a lot of time. For a new drug, we are asked all kinds of irrelevant questions. At both the central and state levels, there is a cadre of clerks always on the lookout for ways to make money." Neither wants to be identified as both their companies await approvals.

Procedural delays is not the only challenge. There are problems also with rules enforcement and skill development to ensure quality. Many rules are also cumbersome. "Even to import a reference product you need a drug licence and a test licence," says the second pharma industry leader. "When something is not for human consumption, why is a test licence required?" He notes that pharma executives often simply carry a sample in their pockets while returning from abroad to dodge this problem.

The DCGI, G.N. Singh, does not deny the need for improvement in his department's functioning, but insists a change process has been set in motion. "Applications used to take three months to one year earlier for approval, but we have reduced the period considerably," he told Business Today during a recent visit to Hyderabad. "This includes the permission for clinical trials. We now have a robust system in place and we welcome anyone who wants to conduct clinical trials. He can get permis-

Curing a Sick System

The main problems and the possible solutions

CHALLENGE: Regulators at both the central and state levels issue licences leading to overlap and confusion.

FIX: Clearly define and separate their roles and responsibilities.

CHALLENGE: No uniformity in the functioning of state drug administrators.

FIX: Choose the most effective among them, such as Gujarat or Maharashtra's drug administration, and replicate the model across the country.

CHALLENGE: Absence of uniform training for drug regulators and inspectors.

FIX: Create a special cadre of trained officials.

CHALLENGE: Delays in approvals, corruption.

FIX: Provide for all submissions to be made online and ensure time-bound approvals.

CHALLENGE: With focus shifting to biotech drugs, regulators need training and knowledge of current trends.

FIX: Hire experts from outside the government on committees to approve drugs. Encourage and fund research.

CHALLENGE: Ensure instances like the death of 11 women after a sterilization operation last November do not happen.

FIX: Amend the Drugs and Cosmetics Act to include strict penalties and enforce them.

sion within one month, subject to the stipulated parameters." On the delays pointed out by the IPA, he says: "If there is a query [which is not replied to satisfactorily] or if someone is not meeting requirements, approvals can take more than six months. They may take six years or even 10."

To speed up approvals and weed

out corruption, Singh is keen to make the process digital. "Everything should be online," he says. "If you want a licence, why should you come to me? You should apply online, adhere to the prescribed guidelines and get it in a time-bound period. We started efforts in this direction about two months ago and we are monitoring how it is going." Chirantan Chatterjee, who teaches Corporate Strategy and Policy at IIM, Bangalore, suggests such transparency should also extend to the drug approval committees. "There should be disclosure of any conflict of interest on the part of members," he says. "I know a couple of doctors on CDSCO committees who are also on the rolls of multinational companies whose drugs the CDSCO has to approve. Where then is the sanctity of the process?"

But even the inordinate time currently taken does not guarantee the



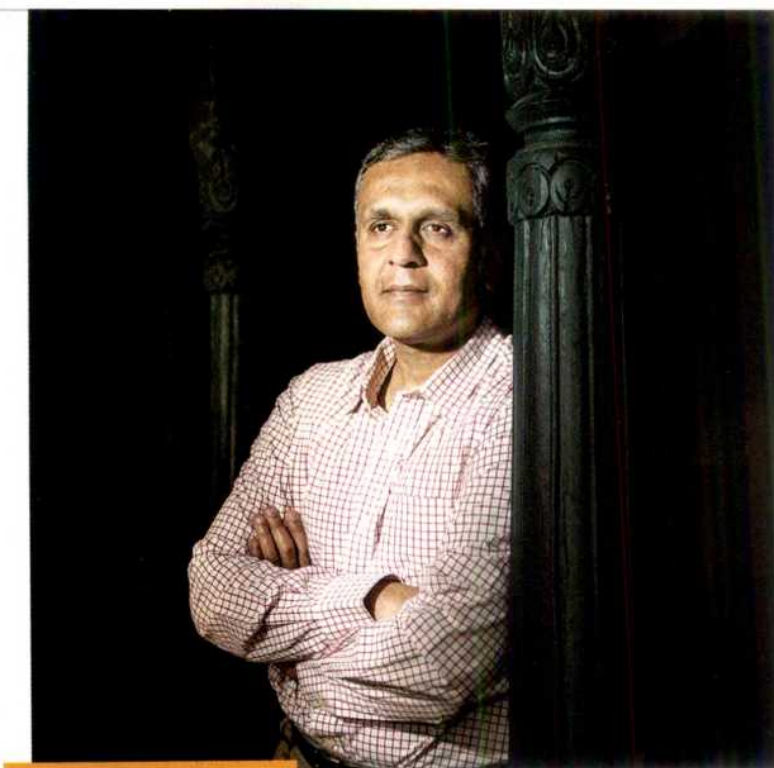
D.G. SHAH
Secretary-General, IPA

"We need to ensure a system where the DCGI has more teeth, is not just dependent on the health ministry and is made more accountable"

quality of drugs in the market. In November last year, 11 women died at a sterilization camp in Bilaspur, Chhattisgarh, allegedly because the post-operative drugs they were given had rat poison mixed with them. The incident made international headlines, but many others of smaller magnitude, which put a question mark on the quality of drugs sold in India, do not. IIM-B's Chatterjee recalls a recent incident when his son had viral fever. "I gave him paracetamol but the medicine did him no good. But when I switched to another brand, he improved," he says.

Greater accountability is essential. "We need a system that ensures there is traceability and visibility of the supply chain of every pharmaceutical product from the active ingredient stage till it reaches the patient," says Tobby Simon, Founder and President, Synergia Foundation, a Bangalore-based applied research think tank. "The pedigree of the chain should also be impeccable. This just does not exist today." Dinesh Thakur, the former Ranbaxy executive who blew the whistle on some of its practices, notes that even some concepts are not clear. "We don't even agree on the definition of an adulterated drug," he says. "We have something called 'spurious drugs' defined in the rules, but that is not comprehensive."

DCGI Singh sees a solution in strengthening the law with adequate deterrents. "We need severe penalty clauses," he says. "They will be in place once the Drugs and Cosmetics Act, 1940, is amended. Penalties will be so severe that erring drug makers will go out of business." Chatterjee agrees on the need to make the law more stringent. "We should also involve citizens, using social media to



VIVAN MEHRA

DINESH THAKUR,
Former Ranbaxy executive

"We don't even agree on the definition of an adulterated drug. We have something called 'spurious drugs' defined in the rules, but that is not comprehensive"

report on drug quality," he adds.

But be it quick disposal of applications to regular monitoring the quality of drugs sold by pharmacists, all require resources, especially increased and trained manpower. "The CDSCO is under-resourced in every way," says another pharma company head. Today, there are just around 1,500 drug inspectors in the

country, many of them with inadequate training. "Exposure of the officers to current issues and practices is very important," says Vasanthi Srinivasan, who teaches Organisational Behaviour and Human Resource Management at IIM, Bangalore. "My assessment is there is very little in-service professional development of these people."

The situation, however, is changing for the better in some states. In Gujarat, for instance, inspectors are getting trained by a US-based organisation in similar skills as imparted to USFDA inspectors and drug makers receive information about regulatory approvals by text messages.

DCGI Singh also insists great change is in the offing. "The government is going to invest about ₹1,800 crore in drug regulation in the next three years," he says. "Around ₹850 crore will be spent on regulatory



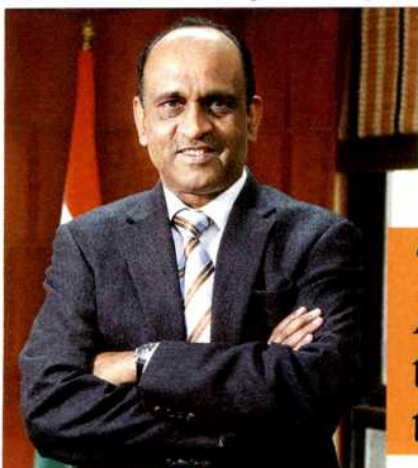
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Interview/G.N. Singh,
Drug Controller
General of India

"DCGI's Autonomy Is for the Government to Decide"

When **G.N. SINGH** was told about a Balaji temple on his way to Hyderabad city from the airport recently, he insisted on visiting it. "Temples keep you grounded, keep arrogance in check. As long as I'm in this position I pray I can serve the people better," he says. Singh, who would need a lot of divine support to oversee the government's plan to revamp the drug regulatory system, took time out to speak with E. Kumar Sharma. Excerpts:

Do you agree the office of the drug controller needs to be revamped?

The quality, safety and effectiveness of medicines are of prime concern. We are keen to strengthen this area. In times to come you will see the regulator becoming the face of the pharma sector in terms of its strength, quality of services and in ensuring safety, effectiveness and quality of medicines.

What changes will we see in the next year or two?

First, everything will be transparent. We want to have online services with fixed timelines. There will be training and capacity building for the regulators, drug inspectors and analysts working in drug testing laboratories.

What is the timeframe to implement all your ambitious plans?

I cannot give you a date. But I'm sure the rollout will begin this year.

Why do you think the drug regulator is criticised so much?

Our people have high expectations but procedures do not match the needs of the country. That is why the government is strengthening the process.

Should the DCGI be allowed to function autonomously and made more powerful like the US Food and Drug Administration?

That is for the government to decide. The government has an open mind. It will do whatever is best for the country. As a regulator, why I should ask?

How will the DCGI ensure that incidents like the sterilization deaths in Bilaspur last November do not recur?

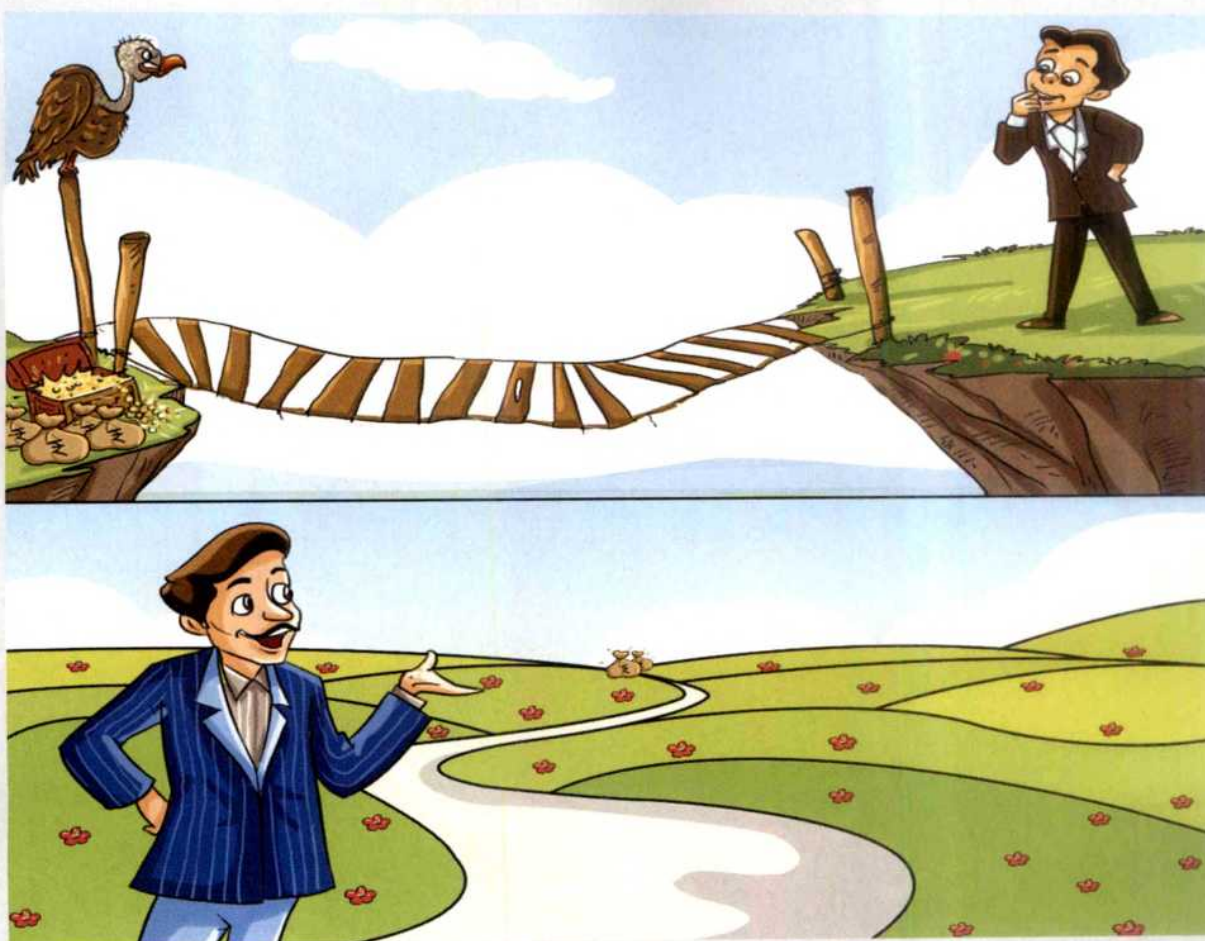
It can be done by imposing severe penalty clauses. This will happen once the Drugs and Cosmetics Act rules are amended.

structures in the states and the rest on the central regulator. We will use the money for capacity building, opening new offices across the country and upgrading existing facilities. The number of regulatory personnel will rise dramatically. We will double it in the next two years and keep doubling every three years. Given the size of the country, we need at least 10,000 to 12,000 people." The DCGI currently has six zonal offices apart from its headquarters in New Delhi.

Better training too will follow. "We have been doing it already for the past year," says Singh. "We just finished training analysts from 28 states who work in drug testing laboratories." His dream is to set up a university for regulatory affairs and patient safety. "I'm going to propose this to the government," he says. "India is already known as the pharmacy of the world. But we need to train people and keep improving their skills continuously. I got the idea when I saw the Forensic Sciences University at Gandhinagar which I visited for the Vibrant Gujarat summit. In due course, we can have a separate cadre of regulators, like the IAS and the IPS, and keep continuously upgrading its skills."

There is also need to clearly demarcate the roles of the central and state drug controllers. "Regulatory approval should be with the Centre, while the state regulators should focus on vigilance and enforcing good manufacturing practices," says a pharma company chief. IPA's Shah says the alliance submitted a host of suggestions to the DCGI last December on how to revamp the system. He sees some of them getting implemented and hopes others will follow. He believes the DCGI also needs to be further empowered – alongside increasing its accountability. "We need to ensure a system where the DCGI has more teeth, is not just dependent on the health ministry and is made more accountable," he adds. ♦

@EKumarSharma



Rule 10: Avoid investing in complicated products you don't fully understand or products that offer unrealistic returns.

Remember the old proverb: "All that glitters is not gold." There are many investment products available in the market, which are complicated and are not easy to understand. Some products also lure investors with unrealistically high returns. You must stay away from such products as they may contain some hidden risks which are either unknown or are not completely understood.

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Second Coming

Vishal Mehta has had limited success as an online retailer with Infibeam.com. But he is back in the hunt with e-commerce infrastructure provider BuildaBazaar.com.

By ARPITA MUKHERJEE, ANAND ADHIKARI, and MANU KAUSHIK

VISHAL MEHTA,
Founder & CEO, Infibeam Incorporation

"We have to have the visibility of returns in a capital intensive business ... it is not what you raise (that matters), but what you return"

SHAILESH RAVAL





Interview with Vishal Mehta at
businessToday.in/infibeam-mehta

THE STORY SO FAR

How Vishal Mehta expanded his footprint

SEPT 2007 ●

Establishes
Infibeam.com

MAR 2008 ●

Acquires digital marketer
P Media & propagator

AUG 2008 ●

Acquires online photo printing portal Picsquare.com

JUN 2011 ●

Launches India's first
enterprise platform

NOV 2012 ●

Sets up JV with Sony for digital
downloads and distribution

DEC 2013 ●

Infibeam crosses the landmark figure
of hosting 23,000 retailers on its platform

FEB 2014 ●

Runs digital marketer
OOplus for \$5 million

MAY 2014 ●

They take 25 per cent stake in
Infibeam's digital entertainment platform

OCT 2014 ●

Launches a new generic
top-level domain (.ooo)

Circa 2007, Vishal Mehta, a former employee of Amazon, set out to launch his own venture. Mehta was keen to create online stores on the cloud for brick-and-mortar-retailers. "We decided to first build a platform for a large retailer because we didn't have much idea about India and the challenges. And if we could do it for one big client, then we can do it for all other smaller and mid-sized retailers," he says.

Mehta had few takers for his business proposition. He had little to show for his efforts when he returned to Ahmedabad after a series of meetings with big retailers in Mumbai. "It was a long flight back home. It seemed like forever," he says. Mehta then decided to turn his business upside down. "Let's use the platform ourselves. Let's understand the problem ourselves. Let's become a retailer first," said Mehta to his business partners, most of them former employees of Amazon. That's how the online retailing arm Infibeam.com was born.

Infibeam was launched at a time when online retailing was in its infancy in India. It initially focused on the automobile segment. In November 2008, Infibeam acquired the photo printing portal Picsquare to enter the gifting space. The product basket was gradually expanded to include everything from mobiles to footwear. Infibeam made an impact to begin with, and there were rumours initially that Amazon was planning to acquire it to enter India.

Today, it seems that Infibeam.com has lost its way. A part of the reason is its aversion to raising external funds. At a time when Flipkart, Amazon and Snapdeal – who have raised big money from private equity players – are slugging it out in the thriving e-commerce market, Infibeam is nowhere in the picture. There are some who say that the retailer has failed to develop a distinct brand identity unlike its rivals. For instance, Flipkart and Snapdeal are known for deep discounts and diversity of products. Amazon has also focused on good service besides offering hefty discounts. Fashion is the USP of Jabong and Myntra. "Infibeam is an online marketplace which could never build itself into a shopping destination. It offers discounts but why would someone go there instead of Snapdeal or Amazon who also offer heavy discounts. If an e-tailer doesn't have a proposition for consumers, it is very difficult to sustain the onslaught of large players," says an industry expert.

Those who have worked with Mehta say that he has mostly been averse to external funding and hefty marketing spends. Most investors who approached Mehta sought a high stake in

the start-up, so he decided to run the show on his own. "They had the first-mover advantage but they compromised on growth due to this approach," says an online retailer. Mehta's explanation is that private equity money comes with costs and riders.

There was a time when Flipkart and Infibeam were almost head to head, according to Niren Shah, Managing Director at Norwest Venture Partners, a venture capital company. "In the past Infibeam was very focused on capital efficiency, and so it did not raise large sums of money. Unfortunately, the Indian market has chosen winners based on scale and the lack of fund raising may have impeded Infibeam's progress."

Clearly, Infibeam lags behind retailers like Flipkart and Snapdeal in terms of volumes and advertising spends. When other e-tailers invested heavily in offline and online marketing, Infibeam chose to stay low-profile. In 2013, it came out with its first TV advertising campaign but since the return on investment was low, it did not continue.

Back to Square One

After trying his luck in e-commerce for a few years with limited success, Mehta decided to go back to his original idea of building e-commerce platforms for other retailers. Infibeam Incorporation launched BuildaBazaar.com in June 2011. Mehta asserts that the venture is at the core of his business activities. "That's where the whole opportunity lies," he says.

BuildaBazaar helps merchants build a platform to sell their products online. In contrast, other e-commerce players such as Flipkart only let retailers list and sell their products on their platform. Indeed, BuildaBazaar is an end-to-end infrastructure provider with an IT backbone, marketing support, payment gateway and logistics support. Its direct competitors are Zepo and KartRocket. Indian retailers, especially SMEs, need continuous support and handholding in setting up shops online.

BuildaBazaar has a tie-up with payment gateways of HDFC Bank, Axis Bank and Paypal. It also has tie-ups with three dozen third-party logistics players to deliver prod-

ucts. Today, BuildaBazaar hosts more than 30,000 retailers including Crossword and The Mobile Store, home appliances maker Prestige, leather goods maker Hidesign and mobile companies such as MTS India and Airtel.

BuildaBazaar earns one per cent of the sales on its platform. It is perhaps the largest infrastructure provider for SMEs in the country. "We want to have 10-20 lakh merchants in next 12-18 months globally," says Mehta. In September 2013, his company forayed into West Asia, which will add significantly to the group's revenues.

Abhay Deshpande, CEO of Martjack, is a bit sceptical of BuildaBazaar. "If you just create a store and provide technology, it is not going to solve the problem of merchants. How will he get the transactions for SMEs? If a retailer is not successful, neither the platform nor the service providers will be successful." Martjack provides enterprise platform for retailers who want to build an online presence and have an offline turnover of over ₹500 crore.

Martjack believes that small retailers cannot compete with Flipkarts and Snapdeals of the world when it comes to discounts and product catalogue. Small retailers, Deshpande feels, can set up their shops online but they can only do well if they are dealing in niche products, have a strong brand name or a robust online budget. It is not going to be smooth sailing, then, for Mehta going forward.

Focus on Profit

In high-growth industries, entrepreneurs generally chase growth, with profits coming later as they build a critical mass. E-commerce companies follow the same principle. But

Mehta has a different business philosophy. "We have to have the visibility of returns in a capital intensive business. If you burn a few thousand crores, it is very difficult to get it back. It is not what you raise (that matters), but what you return," says Mehta, adding that sticking to a business plan requires a lot of discipline.

In the current fiscal year 2014/15, the consolidated revenues of different businesses of Infibeam Incorporation are expected to be between ₹400 crore and ₹500 crore



Infibeam.com
Online retailer of products from
mobile handsets to footwear

BuildaBazaar.com
Provides e-commerce platform
on cloud to physical retailers to
market their products

Triple 'o' domain
Offers dot-triple-0, or .ooo,
domain for businesses as an
alternative to dot-com

**Infibeam Digital
Entertainment**
A technology platform for
music companies and smart-
phone manufacturers to
market and sell music digitally.
Sony owns 26% equity

MATCHING UP

How Infibeam fares in comparison to other e-commerce players



Figures for Flipkart, Snapdeal and Jabong are for 2013/14 in ₹ crore; Source: RoC
*Approximate consolidated figures for Infibeam Incorporation; the company claims it broke even in 2013/14

with earnings before interest, taxes, depreciation and amortization in the range of ₹30-50 crore, according to Mehta. The company had broken even in 2013/14.

Mehta believes in profitable growth than just building sales volumes. He equates his business philosophy with that of companies like IndiGo and HDFC, which focus on growth with profitability. "Retail is very competitive. The shareholders would like to have returns at some stage and then it would be difficult to service them," he says.

Meanwhile, Mehta is ready to take the plunge and raise money from the Indian equity markets. An initial public offering (IPO) is planned in 2015. This will make Infibeam Incorporation the first e-commerce company to get listed on Indian bourses. The plan is to expand the equity capital. The IPO will target raising ₹1,000 crore – it will be used to expand in international markets, build infrastructure and platforms, and manage supply chain logistics.

Mehta refuses to be drawn into a debate on the surging valuations of Flipkart and other retailers. After the latest round of funding, Flipkart's valuation has reached \$11 billion. "I think the valuations are justified," says Mehta, but adds a caveat that retailers have to generate profits. "Businesses are not built to lose money but to make money," grins Mehta.

An Infibeam IPO could pave the way for a public listing by other Indian e-commerce companies, particularly those who are now on the revival path, says Ashutosh Maheshvari, MD and CEO, Motilal Oswal Investment Advisors. "Infibeam is a good candidate because it has

already gone through the curve," he says.

Maheshvari sees local search provider Justdial as a proxy for valuation. Justdial IPO was priced at ₹590 per share. It is now trading around ₹1,350 per share. "Justdial is digital classifieds. Vishal has gone one step further with the subscriber-based model, which keeps the cash coming," says Maheshvari. "There is a uniqueness factor and their competition is limited, so Infibeam has reasons to go public."

Crisil Research states that when investing in an IPO, investors should assess elements such as business model, management capability and sustainability of that model, among other things. "In case the company is not making profits currently, visibility of future profits should be assessed," the ratings firm states.

Mehta, with a 1,000-odd workforce, is focused on building a sustainable, long-term company. He has made it a point that every new hire has to work in Ahmedabad, Infibeam's headquarters, for at least six months. "The idea is that they should understand the vision of the company, culture and ethos," says Mehta.

Will Mehta's shift in focus from pure play e-commerce to a services-driven model pay rich dividends? It's early days yet but with an IPO in the works, the performance of his businesses will be closely followed by investors and analysts alike. ♦

RESEARCH INPUTS BY JYOTINDRA DUBEY

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A photograph of Ajay Bijli, Chairman & Managing Director of PVR Ltd, sitting in a large, plush leather armchair in a PVR multiplex lounge. He is wearing a dark suit and tie, smiling at the camera. The lounge features rows of similar leather armchairs with wooden side tables, each equipped with a small lamp and a water bottle. The floor is covered with a red carpet featuring a large, abstract circular pattern. The overall atmosphere is one of luxury and comfort.

ENTERTAINMENT Multiplexes

The multiplex king:
Ajay Bijli, Chairman &
Managing Director, PVR Ltd



Interview with Ajay Bijli at
businesstoday.in/pvr-bijli

Game of Screens

Will PVR Cinemas retain its No. 1 position in the face of the new challenges?

BY ARUNIMA MISHRA

Ajay Bijli's PVR Cinemas brought the first multiplex to India, to Saket in South Delhi, in 1997. Many others with deep pockets followed in his wake, including corporate heavyweights such as Anil Ambani's Reliance MediaWorks (Big Cinemas) and DLF (DT Cinema). By number of screens owned, PVR briefly fell behind the Mumbai-headquartered INOX Leisure, a subsidiary of Gujarat Fluorochemicals. But in late 2012, it re-established its dominance by acquiring the Cinemax chain, with 135 screens, raising its total number of screens across the country to 462. A series of major acquisitions in 2014/15, however, is seeing other players once again catching up.

Foremost among the challengers is Carnival, a Mumbai-based group which owns 38 restaurants, but entered media and entertainment only five years ago. In July 2014, it purchased HDIL's Broadway Cinema, with 10 screens, for ₹110 crore.

VIVAN MEHRA

It then acquired Ambani's BIG Cinemas with 254 screens for ₹700 crore in December. (The deal is yet to be cleared by the Competition Commission of India.) The next month, it bought Stargaze Entertainment's Glitz Cinemas, with 27 screens, for ₹90 crore, increasing its total number of screens to 460. Carnival's acquisitions of Broadway and Glitz came at a higher per-screen valuation – ₹11 crore and ₹3.3 crore, respectively – compared with BIG Cinemas' ₹2.8 crore as the two takeover targets had presence mostly in tier-II towns – considered growth markets – while BIG Cinemas was present mostly in the saturated metro markets. "We would like to create an institution," says Shrikant Bhasi, Chairman, Carnival Group.

INOX, too, has been active in 2014, taking over the Delhi-based Satyam Cinema – with 38 screens – for ₹182 crore in July last year. (Indeed, INOX has a history of inorganic growth and was able to temporarily displace PVR from the top slot only because of its earlier acquisitions of Calcutta Cine Private Limited's seven screens in 2007 and Fame Cinemas' 95 screens in 2011.) Then, in December, Mexican cinema-exhibition giant Cinopolis, which entered India in 2009, bought Fun Cinemas, with 83 screens, from Subhash Chandra's Essel Group, for an undisclosed amount. "When we came in, we were 20th in the pecking order, but we are now the fourth-biggest," says Ashish Shukla, Business Head - Exhibition, Cinopolis India. INOX's screen tally is now 365 and Cinopolis's, 193.

"I never imagined so many acquisitions would happen at one go," says Bijli. "We should not underestimate anyone. Carnival is a very new player. It is growing more inorganically than organically." But he believes his strong focus on movie exhibition, which is PVR's core business, will make all the difference. "Everyone who is in this business has a reason for doing so, and so does everyone who gets out of it. Film exhibition was not the core business for those who have exited. Such people, if they get a good valuation, exit. Even Carnival's core business

is not exhibition," he adds. What he refuses to confirm is that PVR may soon increase its screen lead as well, as market whippers claim it is in talks to acquire Chennai-based SPI Cinemas – better known in the South as Sathyam Cinemas – with 40-odd screens. Similarly, INOX is said to be looking at acquiring a majority stake in DT Cinema.

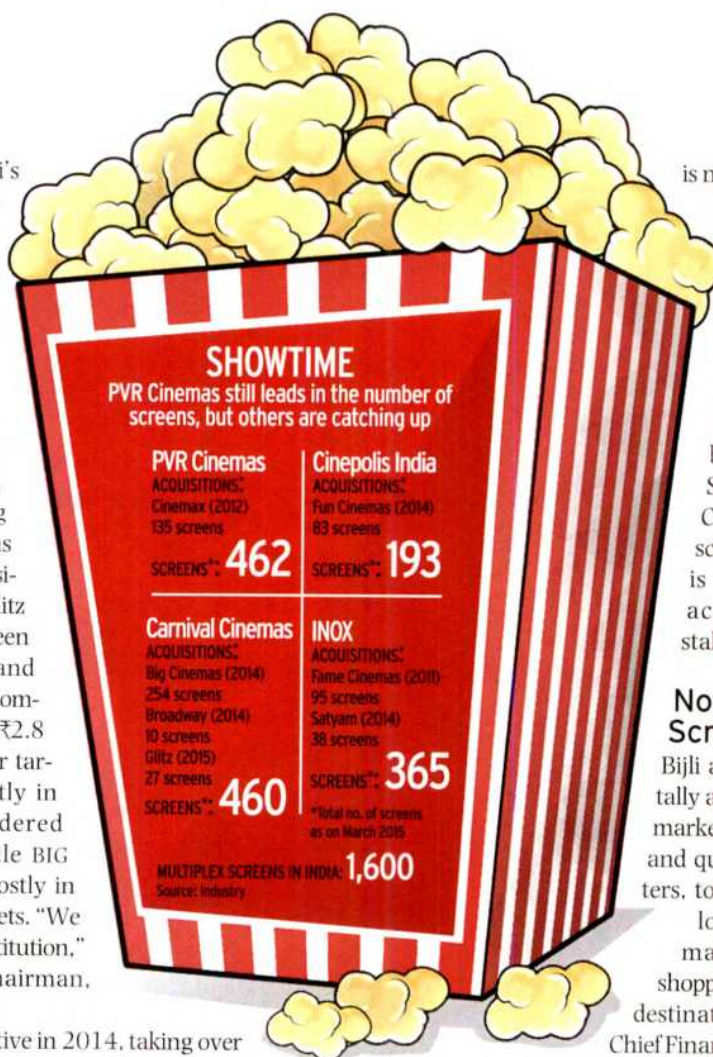
Not by Screens Alone

Bijli also insists that screen tally alone cannot be basis of market leadership – location and quality of cinemas matters, too. "Our strategy is to locate our theatres in malls which are both shopping and entertainment destinations," he says. PVR's Chief Financial Officer Nitin Sood stresses PVR has a far bigger presence

in Tier-I cities and prime areas within these than closest rival Carnival. "If Carnival's 400 screens garner ₹400 crore a year, PVR's 400 screens would get ₹1,500 crore," he says. "Though we are bigger than INOX, INOX is a stronger competitor [than Carnival]."

But even more important is the quality of the movie experience provided. "Acquisition is not simply a matter of changing the logo of the screen from the previous owner's to PVR's," says Bijli. "First we upgrade the essence of the hall – the seating, the carpeting, the technology. Only then do we change the name and logo." Only 13-14 of the 38 properties – amounting to 135 screens – PVR acquired from Cinemax have been redone and given the PVR logo so far.

But PVR is not alone in focusing heavily on this aspect; its rivals are doing the same. If PVR screens provide wider seats, for instance, than Cinopolis theatres allow more leg space. "We lose one or two rows because of the extra leg room we provide, which amounts to 15 to 20 per cent of total revenue," says Shukla. "But we are willing to lose out on business to bring back patrons. Our overall occupancy rate is higher than the industry's 26-28 per cent."



Celebrating
20
YEARS



AIMS INSTITUTES

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This is a phrase which I learnt at AEEC (AIMS Entrepreneurship Excellence Centre). The cell has been nurturing me in all aspects. Special guidance by AEEC has helped me to build a new startup named “EDUPRIME”.

AEEC provided me with all the support and guidance when I needed. The cell's timely guidance has been coming at all stages of my journey as an entrepreneur. Without the AEEC cell I may not have been able to convert my idea into a startup. Humble thanks to the cell for encouraging me in all steps I have taken and guiding me.

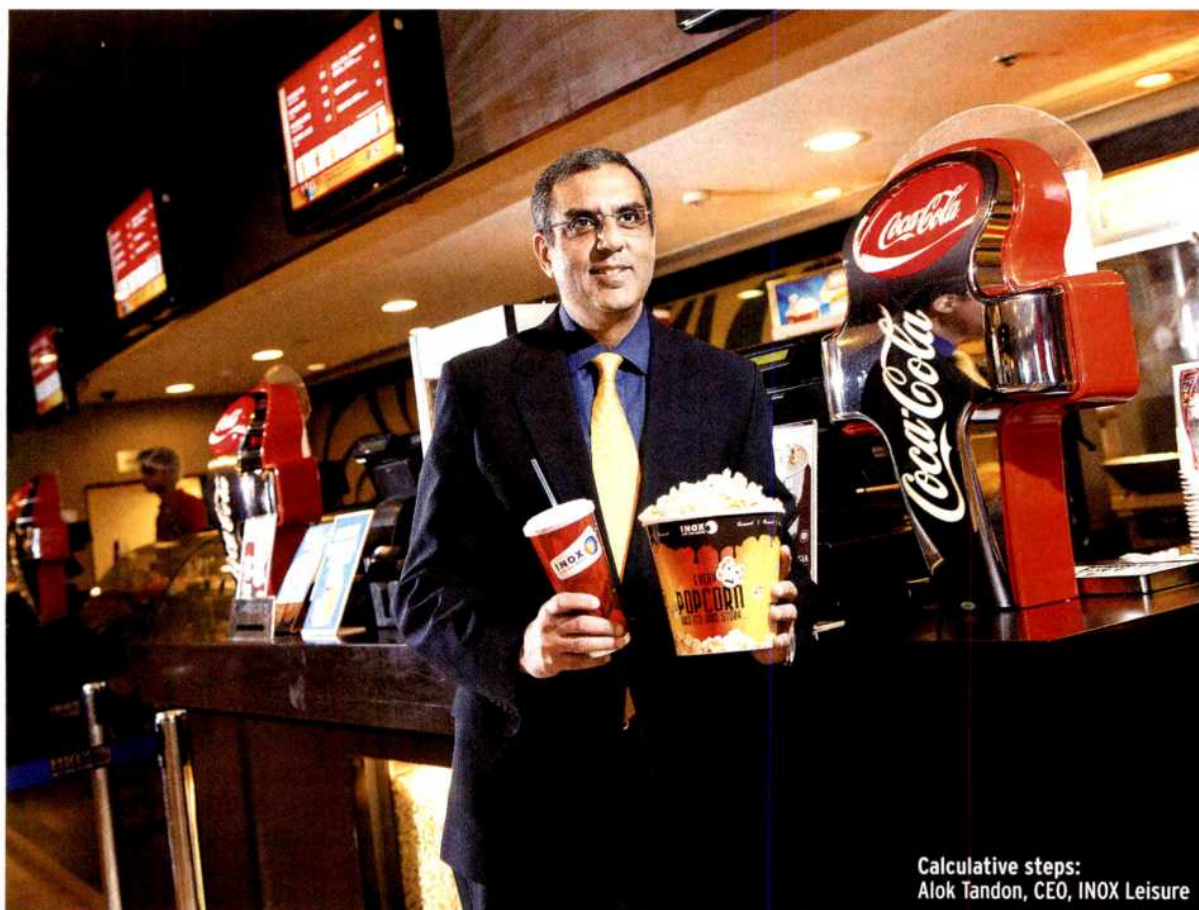
Bharat R

Alumnus, AIMS School of Business



BUSINESS COMMERCE INFORMATION TECHNOLOGY HOSPITALITY & TOURISM ARTS & HUMANITIES





Calculative steps:
Alok Tandon, CEO, INOX Leisure

RACHIT GOSWAMI

How much difference does improving the theatre experience make to revenue? Bijli says the acquired properties PVR has renovated have shown a 10-15 per cent increase in revenue so far. "Our pay per head, or the average earning per moviegoer, has gone up 12 per cent in the April quarter of 2014/15, compared to the corresponding quarter last year," adds Alok Tandon, CEO, INOX Leisure. "Ticket prices can be raised, but what really increases revenue is more income from food and beverages (F&B), and from ad films and posters.

PVR, for instance, has put in ₹3 crore to upgrade the six-screen multiplex at Subhash Nagar, West Delhi, it acquired from Cinemax. "In the first year itself, revenue increased by ₹2-2.5 crore," says Sood. "Within the next 18 to 24 months, advertising increased by 50 per cent, while F&B revenues went up by 40-45 per cent." Analysts note that the F&B trend is in keeping with that in the West. "The share of tickets and F&B is 50 per cent each in the West, while in India F&B garners 30-35 per cent, depending on the multiplex," says Jehil Thakkar, Partner, KPMG. So too, while overall theatre revenues have a compound annual growth rate of 11.9 per cent, cinema advertising grew 25 per cent in 2014. "Our advertising revenue almost doubled from ₹14.5 crore in the

third quarter of 2013/14 to ₹28.91 crore in the third quarter of 2014/15," says INOX's Tandon.

Growth Strategies

No doubt 50 per cent of total box-office collections still come from Delhi-NCR and Mumbai, but multiplexes in smaller towns and cities have also been growing, while single-screen theatres have been shrinking. "Single screens have 1,000-plus seats which are very difficult to fill," says Bijli, adding that he would never buy one. (Multiplex screens have around 250.) Many of the acquired properties are in Tier-II and Tier-III towns. The consolidation thus will enable the big players to move into new territory. With the Cinemax acquisition, for instance, PVR has already entered Bhopal, Jalandhar, Raipur, Bilaspur, Ranchi and Bokaro, among other places, while the Glitz acquisition will take Carnival into Dehradun, Ranchi, Rohtak, Bilaspur and Jodhpur.

It is not an unmixed blessing, as it will inevitably lead to a more expensive – if better quality – movie experience in these places, where purchasing power hardly matches that of the metropolises. "Films will increasingly cater to the higher income group as 80-90 per cent of the population cannot afford multiplex charges," says film direc-



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tor Shekhar Kapur. "Consolidation also increases the powers of a few theatre owners and producers." Film producer Guneet Monga, Co-founder of Sikhya Entertainment, believes it will tilt the power balance between producers and exhibitors. "The top three to four exhibitors will have greater bargaining power as they will control the maximum number of multiplex screens," she says. "This will also reduce the importance of film distributors."



High aspiration:
Shrikant Bhasi,
Chairman,
Carnival Group

Consolidation has also begun attracting private equity capital. Bijli was able to fund his Cinemax acquisition largely because PE firms, Multiples Alternative Investment and L Capital, invested ₹153 crore in it. "Ajay Bijli has professionalised the entire exhibition industry, taking external capital and sticking to quality of service," says Renuka Ramnath, Multiples' founder. "And external capital has helped him grow and enhanced his company's reputation of being professionally run." Indian chains are still small by global standards, with the US's Regal owning 7,000 screens and China's AMC, 5,000. "As Indian exhibitors grow bigger, touching the 750 to 1,000 screen mark, they could well attract global attention, both from investors and buyers," says KPMG's Thakkar.

Organic growth of multiplexes is also happening, albeit on a much quieter note. Though India produces more films than any other country, it has only 6,600 screens – 1,600 multiplex and around 5,000 single screens – while China has 26,000 and the US – with its far lower population – 40,000. The scope for new screens is immense. "We will open about 100 screens a year organically," says Bijli. "There are a lot of players fighting for space in the malls that are coming up. But we're sure most mall developers prefer us as anchor tenants to others." (Anchor tenants are leading tenants whose reputation draws in others.) In coming years, Cinapolis, with its global experience, will open megaplexes: an 11-screen one in Kochi, and eight-screens in Bangalore and Pune, are being built. ♦

@Mishra_Arunima

PVR CINEMAS' INCOME HAS MORE THAN DOUBLED SINCE 2011/12

	2013/14	12/13	11/12
TOTAL INCOME	1,359	815	530
NET PROFIT	56	45	25
TOTAL DEBT**	511	601	174
SEGMENT REVENUES			
Movie exhibition	1,256	722	472
Movie production & distribution	38	55	34
Other sources*	74	49	20

Consolidated figures in ₹ crore; *Bowling, gaming, and restaurant services; **Long-term plus short-term borrowings; Source: Company annual reports



THE IMPORTANCE OF BEING PVR CINEMAS

20-22% revenue share of all Hindi movie box-office collections in the country, 30-35 per cent of all foreign films

In October 2011, it started "Directors Rare", an initiative to promote independent movies which find it difficult to get theatre releases and has so far showcased 50 of them

It runs an initiative called "Alternate Content/Event Cinema", providing a varied range of entertainment – both live performances and recorded events – across genres such as sports, comedy, theatre, music, opera and ballet, concert films, special acts and museum exhibitions

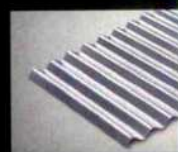
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All those Men and the Elephant

Online furniture retailers grope their way around as sales boom. By VENKATESHA BABU

W

hen Meera Nayak, a software professional with global IT major IBM, started shopping for her new house in Marathalli, Bangalore, the local furniture market did not measure up to her expectations. "Even some branded stores had limited variety," she says. Finally, Nayak took to the Internet. "Urban Ladder was the answer to my requirements. I liked the sleek, modern, straight lines of several of their pieces. The prices were competitive and delivery immaculate," she says.

Consumers like Nayak are making sure that the e-commerce revolution in India is not confined to travel, gadgets, apparel, books and diapers. There is also furniture. Furniture e-tailing is pegged at a mere \$200 million compared to the \$13 billion e-commerce market in India, but is growing at around 10 per cent annually. And, a lot of that is down to the moves furniture retailers have made.

Pepperfry, Fab Furnish, Urban Ladder and Mebel Kart – the big four of online furniture retail – are on the same page when it comes to the prospects of this new channel, but they are chasing different models for

growth. All of them have been monitoring the Indian buyer to devise unique strategies, but have mainly adopted two basic formats – the marketplace and in-house models. Pepperfry and Mebel Kart act as marketplaces aggregating sellers. Urban Ladder and Fab Furnish focus on in-house brands. But again, within the respective framework, each has a different style of functioning. For example, Mebel Kart relies on third-party logistics support, while Pepperfry controls the entire value chain.

Says Rajiv Srivatsa, Founder and COO of Urban Ladder: "Furniture is not easy to master. Focused players can offer greater range, price and services. One needs to have in-house expertise in terms of design and quality checking, even if manufacturing is outsourced." Srivatsa dismisses claims of horizontal e-commerce players such as Amazon, Flipkart and eBay on their ability to scale up the furniture vertical. "Unlike other verticals, furniture is a specialised business, given the differences in designs and material that vary across regions. Online players who are focused only on furniture have greater chances of success," he argues.

"While we outsource majority of our manufacturing, we control the last-mile relationship"

ASHISH SHAH, COO, Pepperfry



Clash of the Craftsmen

Furniture, till recently, was largely a local play. Transporting a bed or a dining table, for instance, was expensive and the possibility of breakage during shipping meant people would hire a local carpenter or visit the

neighbourhood retailer. But, in 2012 a clutch of online players stormed the local bastions. The immense potential has not gone unnoticed. Venture money worth about \$100 million has already been pumped into the segment (see *Stacking Up*).

Ashish Shah, Founder and COO, Pepperfry, says India's home decor and furniture market is worth \$20 billion (about ₹120,000 crore), with less than 10 per cent of it being organised play. Shah says furniture makes up two-thirds of the market, with the largest offline player's revenue pegged at less than \$100 million. According to industry estimates, Godrej Interio is the biggest player with revenue of about ₹1,600 crore, but it is present both online as well as offline and also sells products such as mattresses and health-care furniture.

Vikram Chopra, Co-founder, FabFurnish, is equally excited: "With the Indian consumer's spending power increasing, people are looking for both convenience and quality. This has resulted in a 10 per cent year-on-year growth of the domestic furniture market."

Srivatsa says there is no reason why India cannot throw up a couple of online furniture vendors with multi-billion dollar revenues, along the lines of US-based Wayfair and Meilele of China. Pepperfry's Shah shares his excitement. "It took us two-and-a-half years (from January 2012 to June 2014) to sell the first 100,000 units, but in the subsequent four months (July-October 2014) we sold an equal number of units," he says. "It indicates greater acceptability for online furniture shopping."

The Marketplace Model

The marketplace model acts as an aggregator. Rahul Agrawal, Co-founder and CEO of the Bangalore-based Mebel Kart, feels furniture is a localised business. "We have tied up with local merchant partners. Some of our designs may be proprietary and we check the quality at every stage, but we work with local vendors in each city. This reduces the need for too much logistics, breakages and, most importantly, we carry almost no inventory. This is a capital-light model that would drive growth."

Mebel Kart delivers furniture across 4,800 locations covering 500

RACHIT GOSWAMI

E-COMMERCE Furniture



SHEKHAR GHOSH

cities in India through logistics partners. Agrawal says they have been able to scale up their business at a fast clip and with far less capital because of the flexibility that the marketplace model offers. The company raised just \$3 million from external investors, far less than its competition.

Pepperfry, which also operates on the marketplace model and raised \$28 million, says controlling the logistics is key to their business. "We have 11,000 items listed on the site, which we believe is the largest for any player. While we outsource the majority of our manufacturing, we control the last-mile relationship. We are also open to working with other brands, such as Godrej or Evok, or any other player," says Shah.

The company is looking to raise

an additional \$40 million to \$60 million dollars to expand its network of 70 delivery trucks and warehouse hubs, central facilities across 11 metros to feed smaller warehouses across India. It is aiming at a \$1 billion turnover by 2018.

Companies that act as marketplaces say they work with several hundred manufacturers, but refuse to divulge the details. "Be it large or small brands, if they meet our quality criteria they can use our platform. We have our own managers to en-

sure quality," says Shah. Initially, when a furniture maker enrolls with the company, Pepperfry supervisors monitor the quality at every stage. Once a seller establishes his credentials, then usually a quality check is done at the dispatch stage.

The In-house Model

Srivatsa of Urban Ladder is equally critical of the marketplace model as he is of the horizontal e-commerce players. "If we are selling others' brands, customers will look for the

In every sector it is the top two-three vendors who will eventually win and furniture is no different. We want to be one among those"

VIKRAM CHOPRA, Co-Founder, FabFurnish

STACKING UP: A snapshot of the main players in the online furniture market

Name	Funding	Model	Footprint	Started operations on	Employees
PEPPERFRY	\$28 million	Marketplace	483	01/01/2012	350
FABFURNISH	<\$10 million	In-house	200	01/03/2012	150
URBAN LADDER	\$26.5 million	In-house	7	01/07/2012	150
MEBEL KART	\$3 million	Marketplace	500	01/11/2012	25



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In the comfort zone: Urban Ladder founders Ashish Goel (left) and Rajiv Srivatsa



NILOTPAL BARUAH

lowest price. It is important to have a brand identity of our own and sell only under the Urban Ladder brand. We don't believe in third-party logistics. We want to own the value chain end-to-end. Even outsourced manufacturing is done under our close supervision." He says end-to-end monitoring of products results in greater quality checks and helps to position Urban Ladder as a premium product.

Srivatsa's sentiment is echoed by Chopra of FabFurnish. He has developed several in-house brands to cater to the different segments of the market. "Almost 90 per cent of our sales is from our own private labels. Margins are about 10 per cent higher in the in-house model. The marketplace model is a weak one," says Chopra. Even imported furniture is sold under the FabFurnish label.

Unlike brick-and-mortar stores where you can walk in and have the furniture delivered to you within a couple of days, or a few hours, the

Furniture is not easy to master. You need to have in-house expertise in terms of design and quality check even if manufacturing is outsourced"

RAJIV SRIVATSA,
Founder and COO, Urban Ladder

turnaround time has been the Achilles' heel of online vendors. Those following the marketplace model, however, say their delivery time is half of what the in-house players take. "Our turnaround time is one to three weeks, compared to the two to four weeks for some of our competitors," says Agrawal of Mebel Kart.

Key Strategies

For all their differences, the online vendors seem to agree that sooner or

later they need to have an offline presence, too. FabFurnish and Pepperfry have already set up brick-and-mortar stores while the others are toying with the idea. Says Chopra of Fabfurnish: "The offline stores are not to push sales, but merely to reassure our availability for installation and warranty services."

Each player is devising its own methods to woo shoppers. Some promise quick delivery and a no-questions-asked-30-day-return policy, others ensure speedy assembly and carpenter services. Niche is another wish. Urban Ladder is positioning itself in the "mass affluent" category. FabFurnish says it targets the "affordable, mass market" category. The vendors have also developed apps on major mobile platforms.

All vendors, however, agree that preferences of furniture types differ from region to region. While shoppers in Bangalore might opt for light, modern furniture with eccentric designs, Delhi shoppers like solid wood, antique and colonial. Mumbai, given the space crunch there, prefers compact furniture. Engineered wood and wrought iron furniture sells well in non-metro cities and towns because they are 10 to 40 per cent cheaper than the premium quality furniture.

With an average ticket size of ₹15,000 and gross margin of 50-60 per cent, the race is on among the big four players to be the market leader. Says Chopra of FabFurnish: "In every sector it is the top two or three vendors who eventually win, and furniture is no different. We want to be one among the winners."

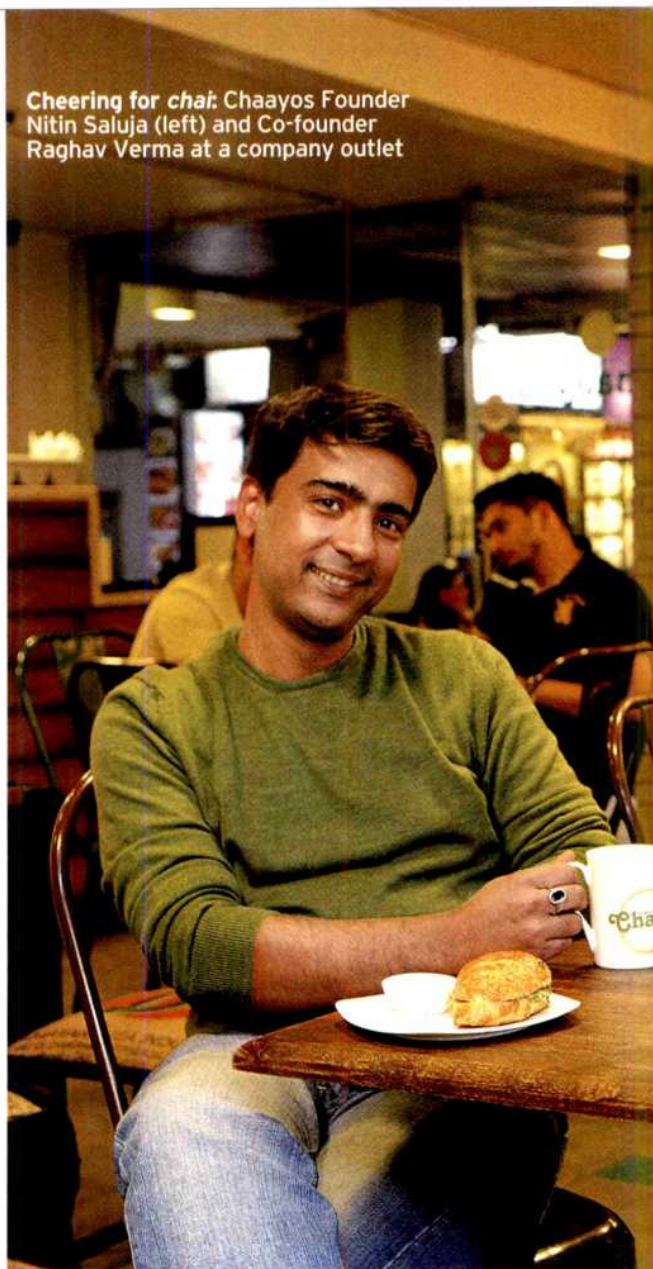
However, it remains to be seen how they will fare once global brands, such as Ikea, enter the market. The Swedish player is soon expected to announce its Indian plans with a store in Hyderabad, but its foray into the online space might be the real challenge for e-tailers. But for now, it is growth time for the online furniture vendors. ♦

@venkateshababu

Cutting Chai, Café Style

Chaayos is two IITians' attempt to bring home-style servings of the vintage brew in a modern and funky cafe format. **By CHITRA NARAYANAN**

Cheering for chai: Chaayos Founder Nitin Saluja (left) and Co-founder Raghav Verma at a company outlet



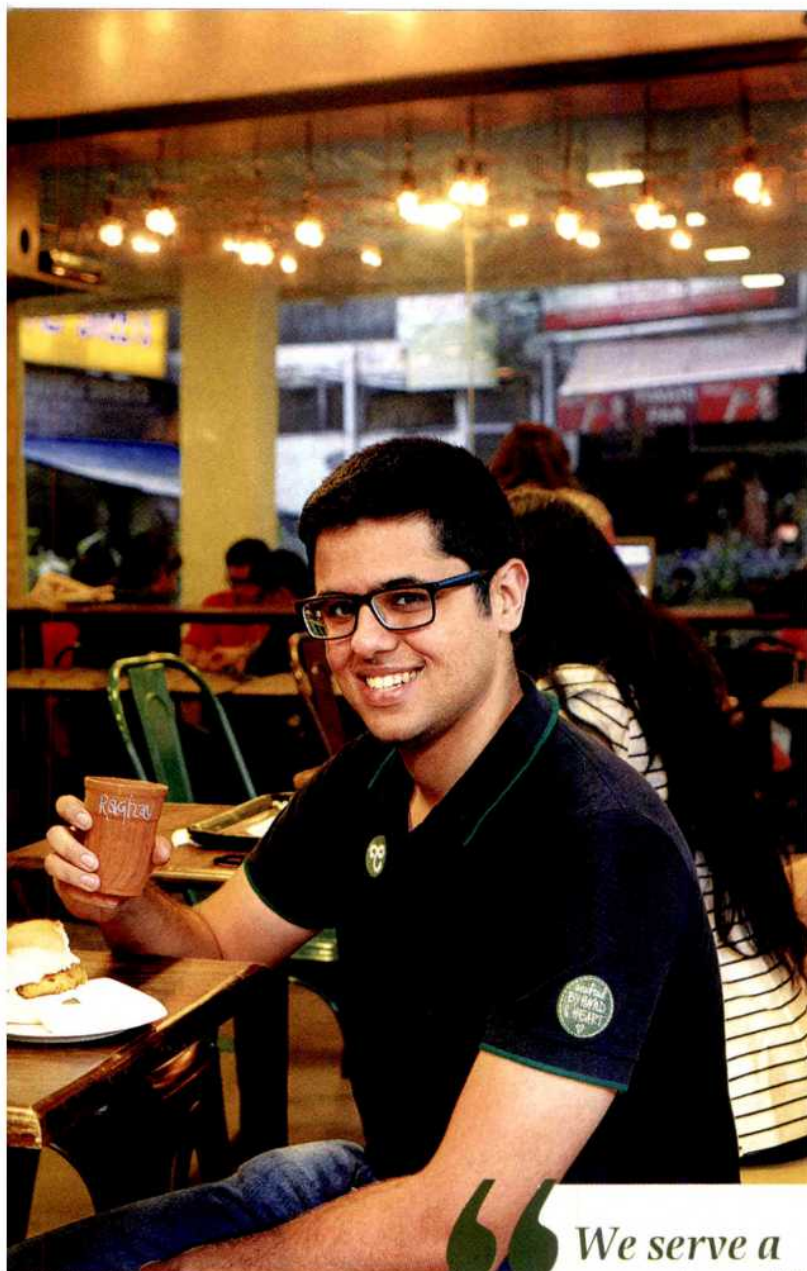
It's 5.00 p.m. on a faintly chilly Wednesday, and the coffee shops at Safdarjung Development Area in South Delhi look busy. But it's the *desi* tea cafe Chaayos that is really buzzing with life. On a long workman-like table a group of corporate looking people are in animated discussion, several cups of *kulhad chai* and sandwiches on their table, jotting notes. At a cosy table for two, an old affluent-looking couple are enjoying

a leisurely cup of *adrak tulsi chai*. At another table, four youngsters sporting casual T-shirts and shorts are playing Ludo over tea.

Approach the big group and it turns out they are a bunch of entrepreneurs and venture capitalists. "Chaayos is my fourth or fifth home. I bring people here all the time," says Khyat Mahajan, who is setting up food discovery platform Binji. On this occasion he has brought in some UK-based venture capitalists he is talking

to, who look quite taken in when their tea arrives in *kulhads*, or clay pots, on which their names are written in chalk.

Nitin Saluja and Raghav Verma, the founder and co-founder of the Chaayos chain of tea retail outlets, wear a contented expression as they see so much "*chai pe charcha*" going on. They say they are even more pleased at the sight of such a diverse spectrum of people walking in. It's not just students from IIT Delhi, situ-



VIVAN MEHRA

ated just opposite the market, who frequent the outlet but local residents and office goers from the vicinity as well, many drawn in by the offbeat variants of tea served here, ranging from *mirchi chai* to fennel tea.

"People go to a coffee chain for a seat and Wi-Fi, but we wanted them to come to our store to drink tea," says Saluja, describing how he spotted the need for tea cafes. "The idea came to my mind when I was working in Houston and had gone out

"We serve a centuries-old product in a contemporary way. The product and service are differentiated, contributing to an overall experience"

NITIN SALUJA,
Founder, Chaayos

with my wife for breakfast one day. At the end of the meal, we craved for *desi adrak wali chai* and then idly thought if we were in India in a similar situation what would we do. The only option was to go to a *dhaba*."

Thus was born Chaayos, an outlet that serves *ghar jaisi chai*, but with some adventurous twists. There is the standard ginger basil and cardamom or fennel tea made at most homes, but there are also some wild experiments like *mirchi tea*, *aam papad chai* and *Pahadi chai*, a takeoff on the Kashmiri *kahwa*. In all, there are some 25 variants including with less milk, with honey and ginger as well as some classic Darjeeling and Assam leafy brews.

Isn't it unusual for two IITians to run a chain of tea stores rather than work at a software firm? Well, the founder duo actually went the conventional route. Saluja and Verma, after graduating from IIT Bombay in 2007 and IIT Delhi in 2010, respectively, joined tech and analytics company Opera Solutions, and that's where they met each other.

In 2012, Saluja quit to start Chaayos. "I was the designated tea maker of my family since I was eight years old," says the Lucknow boy, describing how he enjoys nothing more than making and serving tea ever since his mom taught him how to make the brew.

So when he quit to become an entrepreneur, he was clear his business had to revolve around tea. It helped that around the time he was thinking of opening a tea retail chain, India had a surfeit of coffee chains, but hardly any tea chains, surprising in a tea-drinking nation. "The surveys we did showed that people spent 15 times more on tea than on coffee — even in the south, which is perceived as a more coffee-oriented region," says Saluja.

To start with, Chaayos was bootstrapped. Saluja opened with ₹25 lakh of his savings, of which he invested ₹12 lakh in setting up the first store at DLF Cyber City in Gurgaon.

"The premise was simple. I would give it six months, either put in another ₹12 lakh or close it down." But in six months, it was clear he had a winner, and that's when Verma joined him with an equity partnership. "I had quit Opera 10 months before to open an online education company, but that didn't work out, so I contacted Nitin," he says. Given that Verma is a passionate baker, who makes cheesecakes and tea cakes, the partnership had synergy. Several of the eats provided at Chaayos, like the *Chatpata kebab*, are Verma's creations. Incidentally, the eats are also overwhelmingly *desi* with *bun maska*, *vada pao*, *bun bhurji* and *keema pao* on the menu. *Dhaba*-style rusks and *jeera* biscuits are stocked, too.

Verma's joining was lucky, says Saluja, describing how they got ₹2.1 crore (in small tranches) in angel funding from Powai Lake Ventures. Zishaan Hayath, Co-founder of Toppr.com and an angel investor at Powai Lake Ventures, describes Saluja as a "relentlessly hardworking person". "He is determined and ambitious, and up to building something awesome. That is why I invested in his venture. I also believed in the space he was getting into. We can do wonderful things with tea. A cool, young, artful hangout place for tea is just the starting point and I believe Nitin and Raghav can do much more than that around tea."

The angel money was used to not only open more stores – Chaayos today has eight outlets in the National Capital Region – but also to develop more products.

"The idea from the beginning was that we will be a tea company not a tea retail company, selling services as well as products," says Saluja. The trademark Chaayos blends are sold in packs that cost ₹200, not only at their own outlets but also in modern retail and virtual marketplace. Next on the cards is to develop tea machines to brew *desi* style chai, the R&D for which has been outsourced. Now the duo is looking at Series A funding

(their target is about ₹30 crore) to scale up, and enter Mumbai and Bangalore. "We want to be 10 outlets by the close of this financial year and 60 outlets in 2016/17," says Saluja.

Interestingly, Chaayos has focused on business parks more than high streets or malls. "People actually questioned our logic of opening at a business park as they said office goers would have tea served in their pantries or go down to *dhabas*," says Verma. But, he points out, the advantage of opening in a business park is

Chaayos Quick Facts

- ✓ **FOUNDED:** November 2012
- ✓ **PEOPLE:** 65
- ✓ **FUNDING:** Bootstrapped to begin with; angel investment of ₹2.1 crore in May 2013 from Powai Lake Ventures
- ✓ **AREA OF OPERATION:** Eight outlets in National Capital Region; expanding soon to Mumbai and Bangalore
- ✓ **FOOTFALLS AT DLF CYBER CITY OUTLET:** 600-700 a day
- ✓ **REVENUE YIELD:** 55 per cent from beverages, 45 per cent from food
- ✓ **MENTOR:** Zishaan Hayath, Co-founder, Toppr.com
- ✓ **ON THE MENU:** 25 varieties of tea, including *hari mirch chai* and *aam papad chai*

that so many people gather in a concentrated area that you get 10,000 people to know about the brand from day one and spread the message. The DLF Cyber City outlet, the duo claims, gets 600 to 700 people every day, breaking the myth that people would not spend on a product that they get at home. Especially when that product comes at a premium – Chaayos tea is priced starting at ₹59. Of

course, Chaayos too has the same challenges that plague most coffee chains – high rentals and getting sustained traffic on all days.

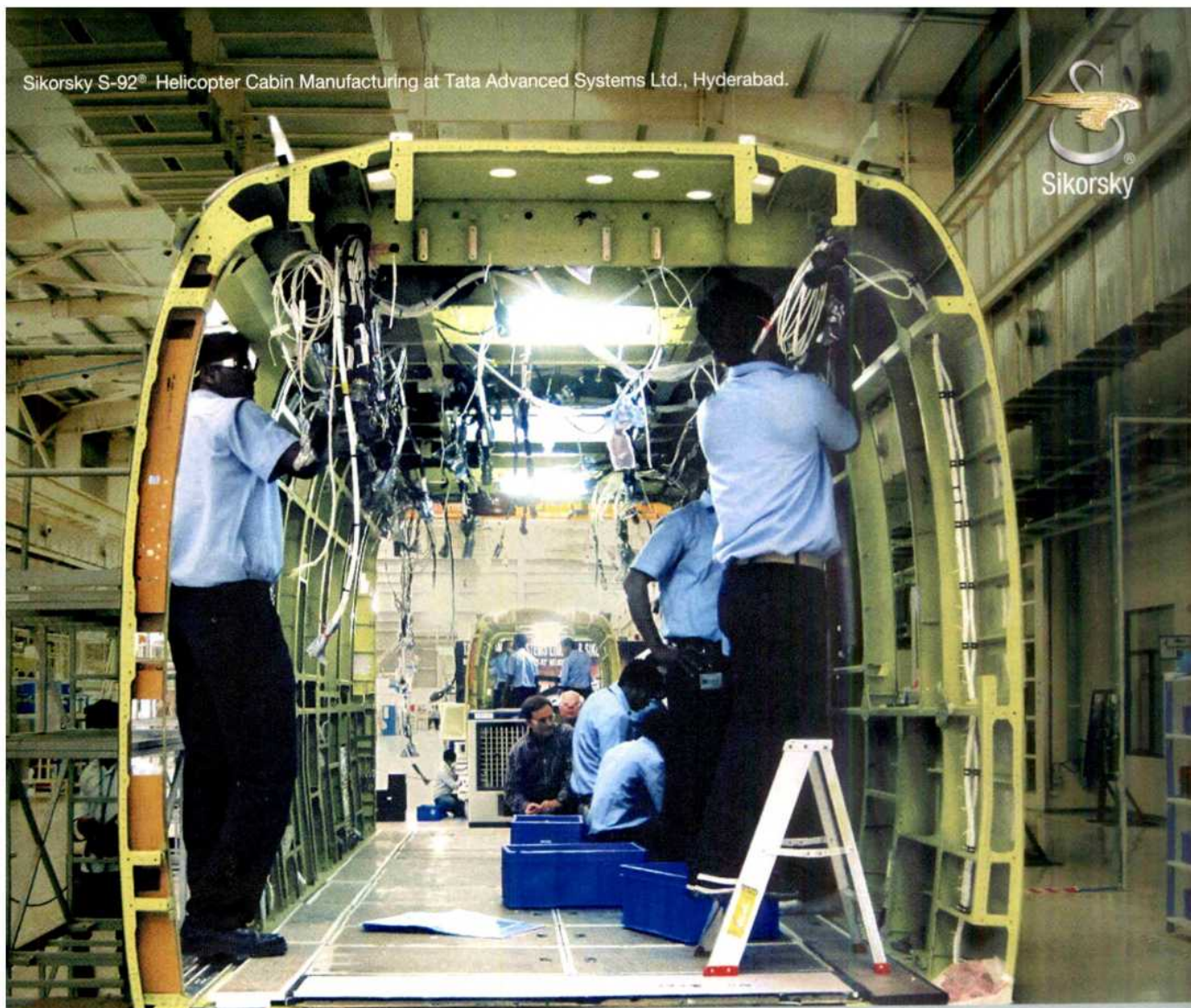
But some strong marketing using social media and activities like sampling at parks and office cafeterias has helped get footfalls. Chaayos also has a loyalty programme where if you have ordered five cups of tea, you get the sixth free. "Seventy-five per cent of our customers are repeat customers. Tea is a repeat purchase product and we realise that having a captive audience is important, so we have a lot of exciting schemes to get them in," says Saluja.

The duo claims that, on average, it takes a store just three months to break even operationally, though it takes 15 months to break even on the capital expenditure incurred. Saluja says the effort is to keep capex low. "An MNC brand will spend up to ₹1 crore in setting up an outlet. We open in ₹15 lakh. We have tweaked a lot of things, the capex model, the product game, allowing us higher margins," he says. Chaayos closed 2013/14 with revenues of ₹1.5 crore from three outlets (two of these opened at the fag end of the fiscal year). It expects to close 2014/15 with revenues of ₹10 crore from eight outlets. The sharp increase in revenue is due to growth in the number of outlets. Saluja says 55 per cent of an outlet's revenue comes from beverages and the remaining from food. In comparison, for most MNC chains only about a quarter would come from food.

Next on the anvil is a tea delivery service in a five-km radius, using disposable one-litre flasks. A mobile app is under development, as is Chaayos Wallet, a loyalty-based pre-paid card. Saluja feels being a products-plus-services company differentiates them from competition, as does their funky style. "We are serving a centuries-old product in a contemporary way," he concludes. ♦

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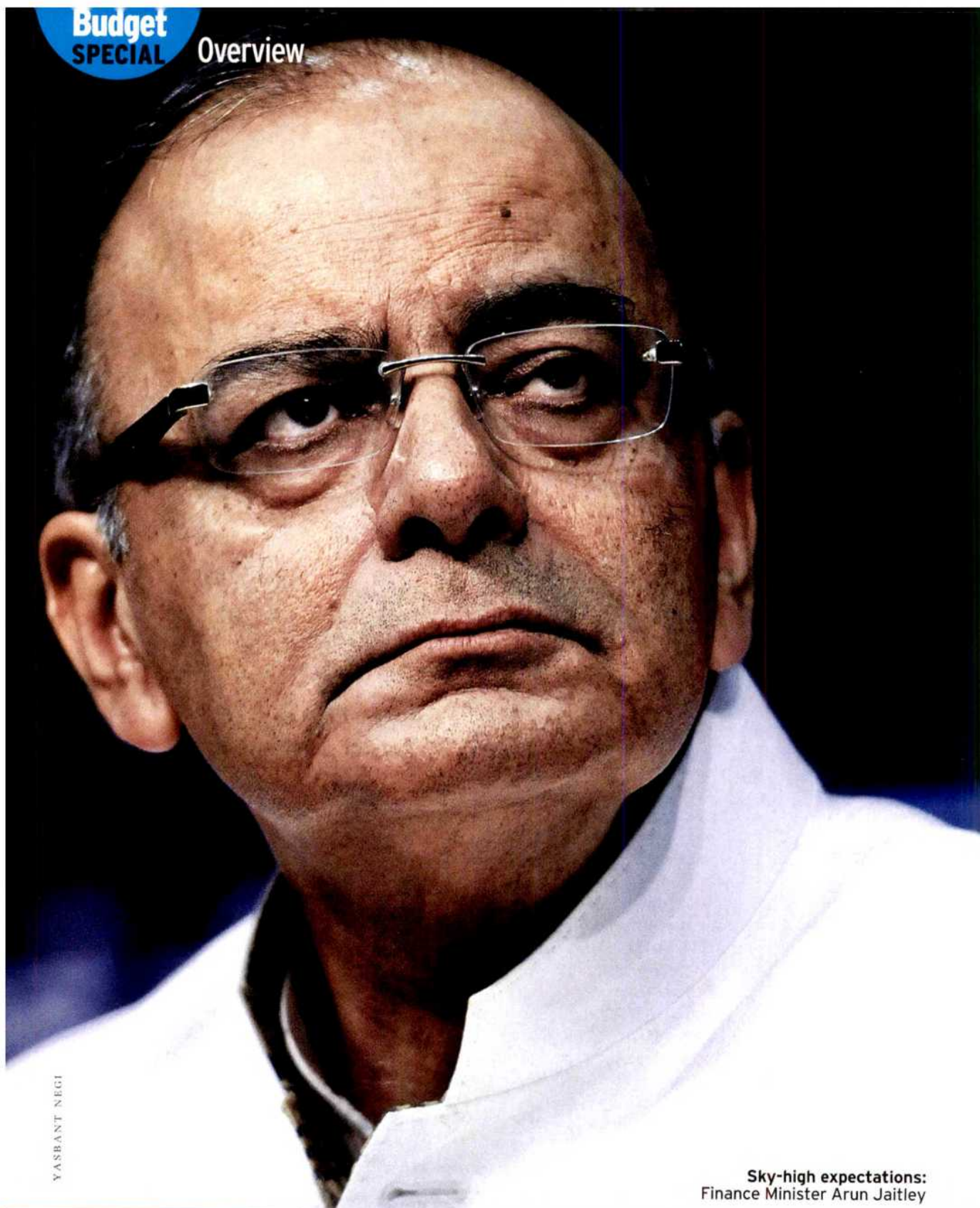
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Sky-high expectations:
Finance Minister Arun Jaitley

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FOR A FEW RUPEES MORE

The Budget does a lot, it could have done just a little bit more.

By SHWETA PUNJ and SUVEEN SINHA

On the fourth day, the Budget began to look really good. That day – March 4 – was when Raghuram Rajan cut rates. The Reserve Bank Governor had made it very clear that he would not tamper with the rates unless the Budget gave him enough reasons to do so. And he is a man known to walk his talk.

Rajan must have seen some of what was lost in the usual post-Budget din. As has become de rigueur, most people gave it high marks but began to list what it lacked the moment the cameras and recorders were turned off. That's one of life's delicious ironies: a vaunted lawyer like Finance Minister Arun Jaitley did not do a stellar job of selling the Budget, even though he did put in much in it.

Or maybe it was because of the unprecedented build-up of expectation. The Finance Minister, armed with a monstrosity majority in Parliament and a historic low in global oil prices, will – they thought – turn water into wine.

They ignored two things. First, there was not enough water left with him despite the oil bonanza. A shortfall in revenues, high interest payments, high revenue deficit, more devolution to states, and a pressing need to increase public spending on infrastructure took care of that. There may have also been an inner voice – and some outer ones in the party, one might add, in the aftermath of the Delhi elections – telling him to shed this image of being pro-corporate and not so much pro-poor.

Secondly, why would he get into this wine business? He used the phrase “accounting exercise” in the beginning

of his Budget speech. Yet, he went beyond it to give some clear signals.

The Narendra Modi-led government's first full-year Budget lays down the vision for at least the next five years. It talks about the government taking ownership of building roads and highways, reduction in corporate tax, a new bankruptcy code, a roadmap for GST, substituting wealth tax with a 2 per cent surcharge on the super rich, and an innovative gold monetisation scheme.

But wait a minute before you cry pro-corporate. The embers of the disaster that was India Shining in 2004 haven't died out. They have only got reignited with the Delhi results. To be considered a party for the wealthy continues to be suicidal in a country a third of whose very large population lives in extreme poverty.

Perhaps that can explain why a party with this kind of majority refused to touch the holy cow of subsidies. Indeed, it makes a virtue out of its resolve not to lower their level. Still, the Budget goes a long way to reform the subsidies system by making it ride what the Economic Survey called the holy trinity of JAM. That is Jan Dhan, Aadhaar, and Mobile. Together, they can help plug leakages and corruption, and make sure the subsidies reach those they target. That is a clear departure from the UPA's mindset of entitlements.

There is more. The Budget has a social security net for the poor, health and accident insurance and a pension plan, recognition of the unorganised sector, and increased allocation to MNREGA despite the Prime Minister's scathing

Corporate tax rate to be cut from 30% to 25% in stages starting 2016/17. Effective corporate tax was only 23%, beginning of rationalisation of exemptions

Excise duty on petrol/diesel of ₹4/litre converted to road cess – more funds for infrastructure development

NEW LAW ON BLACK MONEY – To propose rigorous punishment for concealment of income

INTERVIEW: P. CHIDAMBARAM "Where is this money going?"

Former finance minister P. Chidambaram spoke to *Headlines Today's* Rajdeep Sardesai and ripped apart the Budget. Excerpts:



Are you opposing for the sake of opposing?

I have never done that to any budget. It was a great opportunity to leap forward. And what has he (Finance Minister Arun Jaitley) done? He has simply abandoned the poor.

The government claims to have put together a social security net of a kind that has not been seen before.

There are sharp cuts in many programmes in health, education and employment sectors. The Prime Minister's *Gram Sadak Yojna*, the PM's employment programmes, ministries of culture, environment and forest, Project Tiger, integrated child service scheme... in every scheme there has been a cut.

criticism of it just the day before. Here the signals get a tad mixed, as the Budget reduces spending on education, health care, and agriculture.

It could have also done well to stick to the fiscal deficit target of 3.6 per cent for the next financial year, instead of letting it slip to 3.9 per cent. The slippage may have sent confusing signals about the government's intent to follow fiscal discipline.

Unfortunately, this comes at a time when the international investor community is watching India's every little move and trying to see how credible the revised GDP growth numbers really are. According to Ruchir Sharma of Morgan Stanley Investment Management, they are actually laughing at this bad joke, but let's not go there in this article.

As Jayant Sinha, Minister of State for Finance, says so eloquently in an interview with us (*Nobody wants a nanny*

Should we not look at what the state allocations are?

The total devolution from the Centre to states remains at the same level, 62 per cent. The average over the past many years has been 63 per cent. And what does the Finance Commission say: we are giving 42 per cent of the 62 per cent as untied but the central and state governments must get into an alternate institutional arrangement to fund health, education and other key sectors.

Is it nitpicking?

Nobody is questioning that if the economy is growing at 6.9 per cent in 2013/14, 7.4 per cent in 2014/15 – and if they don't make serious mistakes, the economy will grow at 7.5 or 8 per cent. Growth will happen. But when growth happens are we going to abandon a large number of people who are outside the market economy?

Your criticism is that the FM has not kept his fiscal deficit down.

By stretching the fiscal deficit from 3.6 to 3.9 per cent he gets 0.3 per cent additional borrowing, which works out to ₹37,500 crore. Where is this money going? It is going entirely into non-plan expenditure. But planned expenditure is falling. The entire additional borrowing and more is going into non-plan expenditure.

state, Page 104), this government brought a true fiscal deficit of more than 5 per cent down to 4.1 per cent. Surely, it could have pulled in 30 basis points.

Worse, it did not use that extra bit of elbow room to increase plan expenditure, or the productive expenditure. Instead, as the UPA's finance minister P. Chidambaram points out with great relish on these pages, the plan expenditure has gone down.

Also, the fact that allocation to agriculture declined from 9.5 per cent of the total development expenditure in 2013/14 to 2.7 per cent in 2015/16 could be a cause for concern, since, as the Economic Survey admits, growth last few years was domestic-driven. The major driver of domestic demand has been coming from the rural areas, which are getting hurt by a decline in agricultural growth. ♦

@shwetapunj; @suveensinha



MISSES

FRBM target achievement deadline pushed by one year to 2017/18

No action on centrally sponsored schemes and subsidies

No simplification of tax structure, clarity on direct taxes awaited

Dividend distribution tax stays, no change in Securities Transaction Tax or Minimum Alternate Tax

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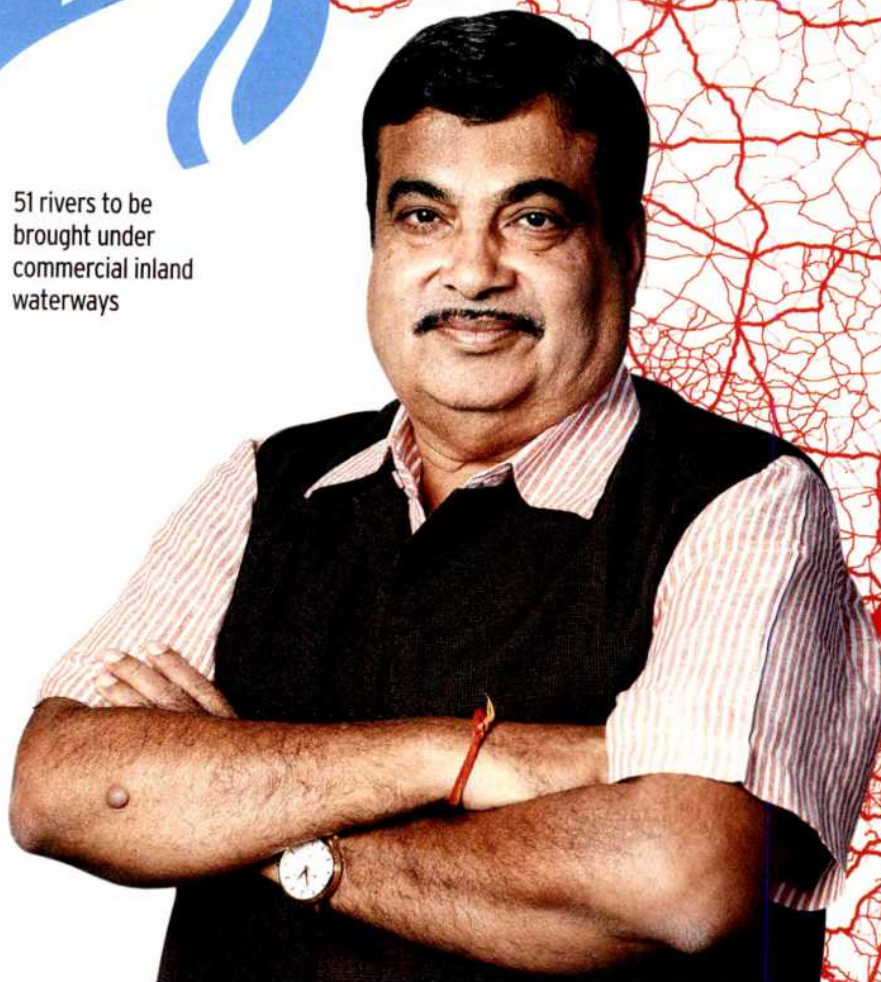
PROJECTS TO LOOK OUT FOR

Bids for 13 road
projects on new
hybrid annuity basis
on the anvil



51 rivers to be
brought under
commercial inland
waterways

RAJWANT RAWAT



THE BUDGET'S BACKBONE, AND OF THE ECONOMY

THE BUDGET INCREASES SPENDING ON INFRASTRUCTURE. THIS IS WHERE THE BATTLE BEGINS.

By ANILESH S. MAHAJAN and SHWETA PUNJ



Varanasi-Haldia
Ganga waterway:
Deadline - June 2016

“It was our mistake that we did not realise the potential of the country’s inland waterways. But now, we will put all our efforts to make this happen”

Nitin Gadkari,
Minister of Road
Transport and Highways

Responding to a recent debate on amendments to the Motor Vehicle Act in Lok Sabha, Transport Minister Nitin Gadkari said he gets stuck for 40 to 45 minutes in traffic at Dhaula Kuan, in south-west Delhi, while on his way to or from the airport. No wonder, then, that he was in an expansive mood when we met him on the evening of March 2. It was way past dinner time, and yet the minister showed no sign of sleepiness or fatigue.

And why would he? He had received a booster shot just two days

before, in the Budget: more money to build more roads, even if that jam on Dhaula Kuan will have to wait for some time.

As Finance Minister Arun Jaitley announced an increase of ₹ 70,000 crore in the government’s spending on infrastructure to take it to a total of ₹1.45 lakh crore for the next financial year, Gadkari’s mind began to race. He brims with excitement as he talks about a bus that moves on water and road.

On his desk sits a wooden placard that says: “I like people who get things done.” The quote is attributed to Gadkari himself. “I don’t say anything that I cannot do,” his voice adds.

That will warm Jaitley’s heart.

The extra spending on infrastructure did not come from nowhere. Directly or indirectly, it cost a 30 basis point slippage in the fiscal deficit target for next year to 3.9 per cent of GDP.

Can Jaitley really make this ambitious thing fly? Maybe not, but he is not getting carried away by the idea. For he knows that the major part of the transport network will have to be roads. There is just ₹200 crore allocated in the Budget for waterways.

As much as ₹14,000 crore – a fifth of the increased allocation of ₹70,000 crore – is for roads alone. This will be supplemented by the National Infrastructure Investment Fund, created with an annual allocation of ₹20,000 crore. In addition, the Budget has allocated ₹14,391 crore to construct roads in rural areas. The Budget also allowed infrastructure finance companies like the National Housing Bank (NHB) and Indian Railway Finance Corporation (IRFC) to issue tax-free bonds for projects like rail, road, irrigation, etc. Gadkari is also looking to raise ₹40,000 crore from the market.

"Some of our PSUs may also contribute to this new fund. When the government decides to put its money where its mouth is, the world flocks to co-invest in such funds," says Power Minister Piyush Goyal. For his part, Goyal has to realise Jaitley's proposal to set up five new Ultra Mega Power Projects, each of 4,000 MWs, in the plug-and-play mode, where government agencies will take all clearances and ensure all linkages before the projects are auctioned.

Ratul Puri of Hindustan Power calls this a great opportunity. Since the National Infrastructure Investment Fund is a separate fund, it will be able to raise debt and, in turn, invest as equity in infrastruc-

MAIN INITIATIVES

Five 4,000-MW UMPPs at an investment of ₹1 lakh crore on plug-and-play mode

Investment in infrastructure to go up by ₹70,000 crore

₹14,031 crore

Increase in outlays on roads

In March, the Railways is signing MoUs for projects worth ₹1,90,000 crore



BOTTLENECKS

Till December, projects worth ₹8.8 lakh crore were stuck

Hurdles include land acquisition, non-environment clearances

ture finance companies like IRFC and NHB. "The infrastructure finance companies can then leverage this extra equity manifold. All this means more monies in the infrastructure sector," says Puri.

Where will all this money go?

The target is to do 8,000 km a year, which will cost no less than ₹20,000 crore. That's nearly 22 km a day. To put the ambition in perspective, just 4,000 km were built in the last few years. Now, 8,000 km is the target for just one year.

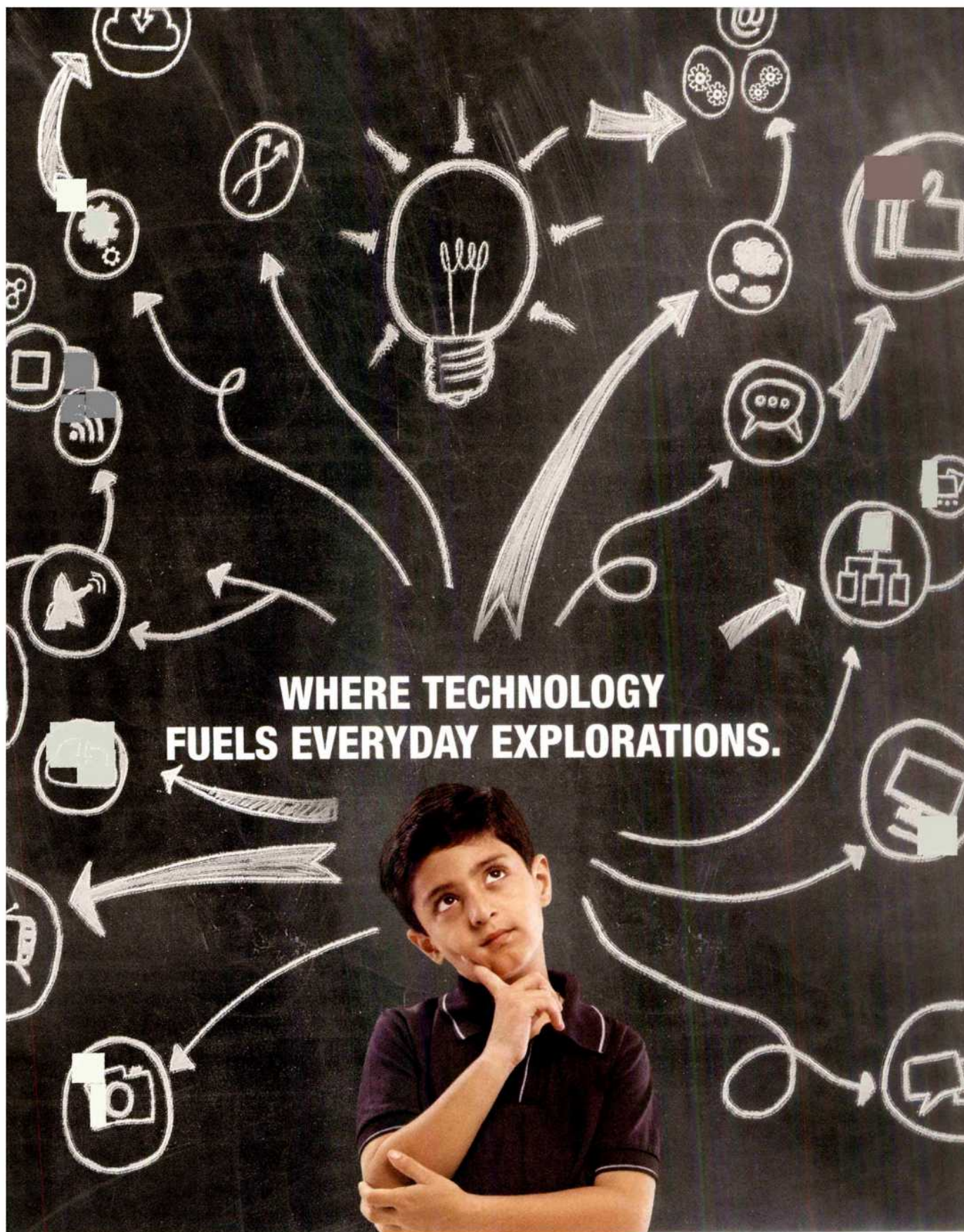
This will need lenders, which have gone away in recent years. The Narendra Modi government is ready to woo them back. Part of this wooing will be through speedy clearances. "Whichever project is ready next month, we are awarding today," says Transport Secretary Vijay Chhibber.

When Gadkari took charge, infrastructure projects worth more than ₹8.8 lakh crore were stuck, including many of road construction. The balance-sheets of the companies concerned were full of red ink. Lenders were in distress and capital was drying up. The Reserve Bank of India insisted that the companies must pay interest to service the debt. The positive business sentiments around Modi's ascent to Prime Minister led to a surge in the stock market, allowing companies to improve their debt-to-equity ratio. A wave of consolidation took place in the infrastructure sector.

Gadkari used the opportunity to clean up. "Our focus is to save the lenders, so that the capital does not fly away from the road sector. We are not bothered about the companies. The effort is to bring investor confidence back," says Chhibber.

A cabinet approval is sought to alter the contracts with the concessionaire to restart stuck projects. "Sixteen projects can be completed but no one is willing to lend more. In cases where the lender is ready to allow the government to take first charge, we are seeking the Cabinet's go-ahead to put in money as debt," explains Chhibber. Similarly, the

₹20,000 CRORE Annual inflow in the National Infrastructure Investment Fund



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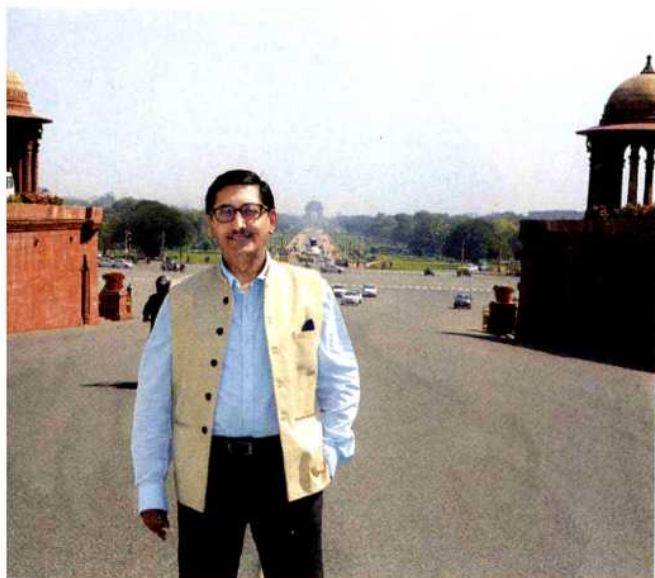
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\$6.5 BILLION

105,000 MINDS

31 COUNTRIES

FLEXI BONDS: The Budget allowed tax-free bonds for infrastructure projects such as rail, road and irrigation



VIVAN MEHRA

ministry is seeking permissions to allow concessionaires of pre-2009 projects to sell their equity. This may free them to reinvest in their other stuck projects.

The public-private partnership model, which has not really lived up to expectation, has been changed to make the government pick up 40 per cent equity and take on the traffic risk. The remaining equity will be annuity-based payment linked to construction and timeline. Annuity-based payments refer to assured returns at fixed intervals based on a contractor meeting construction obligations on schedule.

The big idea is hybrid annuity. The government is offering 13 new projects covering 2,100 km, in

VIJAY CHHIBBER
Transport Secretary

“Our focus is to save the lenders, so that the capital does not fly away from the road sector. The effort is to bring the investors’ confidence back”

projects worth ₹1.4 lakh crore have been cleared and a solution is being worked out for 26 projects.

No wonder Gadkari’s ministry has come alive. The minister is known to pick up the phone to call

which the offer is to take up to 40 per cent viability gap funding, or VGF. This is a litmus test for Gadkari. In the last two years, his ministry could not disburse 21 projects. “The intention of the government is good and another positive is that they are listening,” says the CEO of a company who does not want to be named.

The government is also giving incentives to contractors to finish projects on time. There are contractors who are now finishing projects months before time. States such as Rajasthan and Madhya Pradesh are working towards the government’s agenda of connecting India through high-quality roads, but states like Bihar tend to be problematic as ever.

According to Gadkari, 78 per cent of the issues related to the road sector have been resolved. Forty unviable projects have been terminated. Road

his counterparts in other ministries to address issues arising out of coordination bottlenecks and solve, within minutes, problems that could potentially cause six-month delays. His officers have begun to believe that the cornerstone of India’s growth story has to be connectivity through roads and highways and the country’s links to the rest of the world through ports and inland waterways.

Inland waterways is an area that invariably makes Gadkari smile. In the last seven decades, India could transport just 0.2 per cent of its cargo through waterways. In Europe and North America water is the cheapest and safest mode of transport. Since Independence, India has developed only five commercial waterways. The plan is to develop 45 more.

“It was a mistake. We did not realise the potential (of inland waterways). But now our focus is to make this happen,” says Gadkari.

The other important leg of the network will be the railways, where Suresh Prabhu is basking in the afterglow of a well-received Budget. He is ready to sign ₹1,90,000 crore worth of agreements in the next week for railway projects.

A multimodal corporation has been set up for greater coordination between key infrastructure ministries. In nearly 90 per cent of the provisions announced in the Rail Budget, work has already begun. A helpline was launched within three days. The ministry – believe it or not – worked 20 to 22 hours a day to put together the Rail Budget, which clearly addressed structural issues.

Gadkari, meanwhile, can spend a bit more time thinking of that bus that swims in water. ♦

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The crease of his white kurta looks crisp enough to scratch the sandstones lining on the insides of North Block, the secretariat building that houses the finance ministry. The tall and fit **JAYANT SINHA, 51,**

looks every bit a mantri, with a bit of help from his grey Nehru jacket. But he does not speak like one.

"Come in, folks," he says, as he opens the door to his cavernous office. That's the first time a mantri has addressed us as "folks". His mood is a bit up this morning – March 4, four days after the Budget – because the Reserve Bank has just cut rates. As we begin to talk, the MBA from Harvard and former McKinsey partner comes fully to the fore. Still, we come away feeling that we have been through not just an interview but also a bit of a sparring match. Edited excerpts:

Is it correct to say that this Budget is the beginning of a long process of changes that must be done to kick-start economic growth? There are the issues of land acquisition, environment clearances, labour reforms...

(Cuts in) First, let's see the context of this Budget. There are some bitter economic truths. A lot of our revenues go into servicing debt. Inflation had been running at eight to 12 per cent. India's tax-to-GDP ratio, fiscal deficit, and debt levels are at unacceptable levels. The 14th Finance Commission asked for a historic devolution, which, of course, we are in favour of. This fiscal year we had to go from a fiscal deficit of 4.7 per cent – many believed the real number was much higher because of the financial jugglery done in the previous budget – so in this fiscal year, from May till March 31, we were looking at a consolidation requirement of perhaps north of five per cent right down to 4.1 per cent. Revenue projections were way overstated. That's the context.

PHOTOGRAPHS BY VIVAN MEHRA



“NOBODY WANTS A NANNY STATE”

By SUVEEN SINHA, SHWETA PUNJ and ANILESH S. MAHAJAN

We landed at 4.1 per cent is due to the fact that we were very-very fortunate in terms of commodity prices, specifically oil, and due to the very prudent fiscal management that we have done. The fact that the RBI has cut rates today is testimony to our prudent fiscal management.

That's what we inherited. Even as we were dealing with these realities, we put a budget framework that covers everyone. We looked at the last 25 budgets and pulled out the five or six we think had the most impact on India's economic history. Two of them were by my father (Yashwant Sinha). Extraordinary as those budgets were, they had eight to 12 structural reforms. In this budget there are 15-20 high-impact, structural reform initiatives. We have significantly exceeded the best-in-class benchmarks.

Since we came [to power] last year, the Nifty has gone from 6,000 to 9,000 – 50 per cent. It was a hope rally. To sustain that, give it new legs, and convert it into a conviction rally through the catalyst of the Budget was an extraordinarily high bar to meet. It gives us a great deal of confidence that, in fact, India is going to grow in a non-inflationary way at seven to eight per cent for decades.

If we grow at that rate for 10, 12, 15 years, our \$2 trillion economy can become a \$4 trillion to \$5 trillion economy. GDP to market cap tends to be 1:1, listed plus unlisted securities. If, indeed, GDP goes to \$4 trillion, market cap will go up by \$2 trillion. For investors, this is the most exciting wealth creation opportunity on the planet.

You mentioned the remarkable work done by some of the earlier

budgets, including by your father. Now, your father had valiantly attacked the urea subsidy...

I'm familiar with that. Your question is what we are doing about fertiliser subsidy.

Fertiliser and food subsidy.

There is no way we are going to drop subsidy levels. We absolutely have to make sure that nobody goes hungry, nobody is deprived of kerosene for their lighting and fuel needs, nobody is deprived of the ability to grow crops. Now the question arises, how do we provide these benefits to those who need them in the most efficient way possible. We have the Jan Dhan Yojana – every Indian has access to a bank account. We have shown that as far as gas cylinders are concerned, we can make subsidies a lot more efficient. There were people who were getting 300 gas cylinders a year.

Households?

Yes. There was no ceiling. The previous government, of course... there is no harm... and the right thing for India is to continue with the good idea of capping the number of cylinders. We have continued with the good idea of aadhaar. The missing link without which the whole direct benefits transfer could not work was bank accounts. In mission mode we tackled it and within four months made sure that every household had access to a bank account. And, of course, everybody has a mobile phone. So that is the JAM trinity we talk about.

The economic survey, too, talked about it. But there was not much in the Budget.

Now the platform is in place to have much more efficient subsidies. We have demonstrated what we can do with gas cylinders. You pay market price. Then, if you want subsidy, it will be directly put into your bank account. Similarly, when it comes to food, fertiliser, kerosene, we are going to move forward using the same principles. Let's make sure there is a cap on it, there is no overuse, no leakage, and it goes to the targeted beneficiary. All government welfare schemes – Jan Suraksha, Jeevan Suraksha, Durghatna Beema, Atal Pension Yojana – are meant to go through the Jan Dhan accounts.

(Gets up to grab a booklet of the Budget speech from his table, rifles through the pages, stops at page 44, and reads out.) “In sum, these social security schemes reflect our commitment to utilise the Jan Dhan platform to ensure that no Indian citizen will have to worry about illness, accidents or penury in old age.”

You talked about keeping to the 4.1 per cent fiscal deficit target. Everyone appreciates that. But the revenue deficit remains high.

That's correct.

And interest payments, too, are at a record high.

I think that is a misguided question, if I may say so. We have an unacceptably high debt level because we inherited a very-very difficult fiscal situ-

ation. We have had a worryingly high fiscal deficit, which had to be financed through issuance of government securities. Those build up over time. Therefore, we have to pay very significant interest expenses. With rates coming down now, some of that interest burden will ease. As we bring the fiscal deficit down, we will not add to that debt. Since the economy will continue to grow at seven to eight per cent, our hope is that we will be able to bring the debt-to-GDP ratio to a more acceptable level. We have to grow out of this trouble.

You mentioned the revenue deficit. The fiscal deficit is very challenging. In addition, we have devolution

time. We also want to increase high-quality spending, on capital expenditure, etc, which have a high multiplier effect, and are productive assets. We provisioned ₹70,000 crore in the Budget for capital expenditure. Point two, we said that financing agencies like NHP and IRFC can issue infrastructure tax-free bonds. Item number three, which is a real game changer, is the National Investment Trust. I don't know if you picked that up, the National Investment Trust is going to get ₹20,000 crore a year. You can lever that up. It can potentially have ₹100,000 crore a year of dry powder to invest in infrastructure.

There is plenty of capital in India. We just have to make sure that it is put to work wisely and effectively.

On the salary front, you may face a little more pressure once the Pay Commission...

Pay commission, yes, absolutely.

The recommendations may come before the next Budget.

Yes, we have to take that into account. The recommendations will come in, but they may not necessarily

be implemented this fiscal year. They may be implemented from the next fiscal year. But it is right around the corner and that is also going to be challenging.

In the past that has proved to be about one per cent of the GDP.

Yes, we know that.

About your projections, you are banking on 8.1 to 8.5 per cent growth in the GDP. But if you look at the other aspects of the economy – corporate profitability, tax collections, jobs growth – they don't

seem to be keeping up with the GDP growth.

Of course, the GDP growth now is set on a new base. Our revenue targets are quite reasonable at 14 per cent overall. In that we think our GDP will grow at nominal 11 per cent – between inflation and actual GDP growth rate. Taxes go hand-in-hand with nominal GDP. We are not assuming any tax buoyancy. The additional three per cent is coming only from the full-year impact of the excise increase on fuel. Since we instituted this only in the last third of the year, we have had this only for a third of the year. The one fair criticism would be that you are dependent on oil prices staying in this band, and we are looking at a band of \$50 to \$80.

There seems to be a growing divergence in this Budget between excise and service tax. Shouldn't they get aligned in the run-up to GST?

We will have to look into that. Obviously, there is a certain amount of fiscal pressure. So we have to look at revenue enhancement on one hand. On the other, we have to go towards a revenue-neutral, flat, across-the-board GST rate as well. That alignment will have to happen over time.

For the purpose of signaling to the international community and national, did you debate if it would be wiser to stick to the fiscal deficit target of 3.6 per cent for next year, instead of letting it slip to 3.9 per cent?

On balance we felt that the near-term stimulus that would come into the economy by getting this additional 0.3 per cent, focused on investment, was worth it. If we were able to achieve 5+ to 4.1 per cent, surely we could do another 30 basis points. The issue on the margin was, is this a wise investment with a high multiplier



where 42 per cent of the money is going to states. We still have to protect a whole host of expenses. A lot of those are salary-linked. As we move more to the states, we still have the central expenditures. The revenue deficit will go up because those things are being protected while the revenue is going down. So that ratio goes up, if you understand what I am saying.

We are trying.

We recognise that the revenue deficit at 2.8 per cent [of GDP] is not great. Obviously we want that to come down. But it will take some



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effect? In our considered judgment we felt that it was.

What is the thinking on plan versus non-plan expenditure? Plan has gone down, but non-plan, the not-so-good expenditure, has gone up.

As far as plan expenditure is concerned, much of that has moved to the states, and therefore it has gone down. There are schemes that have been transferred fully to the states. There are other schemes where there is a change in the sharing pattern between the Centre and the states. Plan expenditure has effectively been devolved to the states.

The Prime Minister criticised the MNREGA strongly in Parliament. Yet, the next day, the Budget increased its allocation. What is the philosophy?

The philosophy is extremely clear. What the Prime Minister said in Parliament is that the MNREGA has been used to dig holes. If we redesign MNREGA, it will continue to further our philosophy of a safety net, and it will enable us to build productive assets in rural infrastructure. It is not an entitlement programme, it is a safety net. This is a very big distinction between our economic philosophy and the UPA's. The UPA philosophy was focused on entitlement. We are redesigning these programmes like we changed the gas cylinder programme from an entitlement programme to an empowerment programme. Our job is to get better jobs and opportunities for you so you don't need MNREGA.

We want to make sure everybody in India prospers, but in a sustainable, long-term way. That is the way to enable people to lead a dignified life. Nobody wants to be a ward of the state, nobody wants a nanny state. We don't want a pov-ertarian mindset, which says we have to keep people trapped in pov-

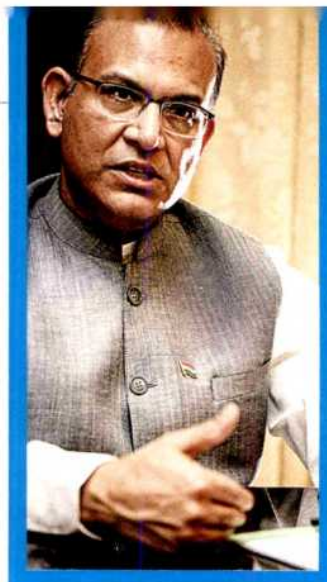
erty. We have to give people the tools, the skills, and the resources, otherwise we are not going to get wave after wave of growth.

Not much was done in the Budget for recapitalisation of public sector banks.

You are quite wrong. I think you had a big article on banking. Everything you write, I'm going to read. What we have done [about banking] is very important. Let me read it out to you. (Rifles through the pages of the Budget speech and reads out loud.) "In order to improve the governance of public sector banks, the government intends to set up an autonomous bank board bureau. The bureau will search and select heads of public sector banks and help them in developing differentiated strategies and capital raising plans through innovative financial methods and instruments. This would be an interim step towards establishing holding and investment companies for banks." Is that a profoundly important step or not?

It is.

I rest my case. There is a small provision in the Budget to put more money in the banks. The right question is how we improve the performance of these banks. If we improve their performance and ensure they have winning strategies, we are confident that with the use of innovative financial instruments they will be able to raise sufficient capital. The winning strategies can include a whole host of measures, including mergers and acquisitions. We believe the talent shortage is way more important than the capital shortage. As a custodian of people's wealth, why



will I raise equity for these banks at the distressed valuations they have right now?

(Looks at his watch) I'm out of time now.

One last thing. Did the Delhi polls influence the Budget?

I would say only very marginally. We have had a very consistent economic philosophy and set of priorities that we are relentlessly executing. But in any political campaign, there are angles of attack that open up. And one of the angles of attack – which the Prime Minister addressed brilliantly in Parliament and in his speeches – is that are pro-corporate.

And not pro-poor.

And not pro-poor. We have always been pro-poor. I will commend you to listen to the Prime Minister's speech on May 20, 2014 in the Central Hall of Parliament after he was appointed the leader of the party in Parliament and therefore the PM. In that he said in a crystal-clear way: "Ye gharibon ki sarkar hai, aur jo hamari sarkar hai wo gharibon ko samarpit hai." If you ask me who has the first right to government resources... Whether it is the Delhi election, or the Jharkhand election, or the J&K election – nothing changes. People who have the first right to government resources are the poor and the deprived.

You have to go out there and understand how difficult their lives are and how miserable and destitute they are. This is not our political priority, this is our moral responsibility. It is our raj dharma. What happens in any election cannot impact that overriding priority. ♦

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The Government Will Continue to Fail

The Finance Minister was far too timid. Industry is doing badly; he should have given it generous incentives, especially accelerated depreciation. He could afford it, for the macroeconomic situation is benign: inflation is down, balance of payments is comfortable, and public debt is not too high.

The new government created a "national portal" which is supposed to give information about all official activities. It lists 345 public welfare schemes. Typically, someone at the centre has a brain-wave: why do we not immortalise one of our dead politicians by naming a welfare scheme after him? He talks to the finance minister, who allocates a few billion rupees. Many schemes duplicate one another; but merging them would erase a politician's memory and anger his followers. So schemes go on multiplying.

The Bharatiya Janata Party has been out of power and hence out of the scheme multiplication game for a decade; it has just started with a few schemes named after Atal Bihari Vajpayee and Deen Dayal Upadhyay. But it has not named its biggest new scheme, called Jan Dhan Yojana, after anyone, probably because it is not new. It is a combination of three old programmes. One type seeks to deliver desirable goods and services to



“The new government is sold on rural banking. It wants to give benefits to villagers, and wants to pay them through banks”

the poor; another subsidises them, and the third seeks to enhance their earning capacity.

The first type has been the least successful. It requires thousands of people to work diligently and be honest – traders in the case of food distribution, doctors in the case of health services, teachers in the case of schools and so on. The expectation has been belied, and the programmes have generated vast corruption. Subsidies create dual markets and lead to leakages from the subsidised into the unsubsidised market. So product-based subsidies have become discredited. The recent trend has been for the government to avoid goods and services and

to deliver money instead. But cash is easy to misappropriate. So the government has been trying to open bank accounts for every beneficiary and send the money directly to him.

This effort too has met with little success. The problem is that bank employees refuse to live in villages; they prefer urban luxuries. So the Reserve Bank invented an agent who was not an employee – a shopkeeper or trucker who would also be a bank agent. He is also usually a moneylender, and does not see why he should give up his lucrative business for a modest bank correspondentship. Nor do villagers see any point in keep-

ing savings in a bank. They would leave modest sums with shopkeepers or employers; if they have more money, they would rather build a house, buy a farm or pay a dowry.

But the new government is also sold on rural banking. It wants to give benefits to villagers, and wants to pay them through banks. It proposes to sweeten rural bank accounts with free insurance, a debit card, an overdraft etc. It too wants to appoint banking correspondents in every village.

That is not going to work any better than it has in the past. What would work is two things. One is importing the e-Paisa system from Kenya. There, you can go to any shop which has an e-Paisa window, give the girl money, and ask her to send it to your wife. She will phone the e-Paisa agent in the village – usually a shopkeeper or moneylender – and ask him to pay the woman; the husband will phone his wife and ask her to collect the money from the agent. The money transfer service works well because transfer charges are quite high. The other is to give the local moneylender a kind of bank licence on a few simple conditions: that he keeps accounts for inspection, does not beat up a borrower, keeps a bank account etc. If these two things are done, a decentralised, low-cost banking service will emerge.

But it will not happen. For Indians are fed from infancy with the canard that moneylenders are vultures and have to be destroyed. So the government will continue to try and compete against moneylenders, and continue to fail. ♦

The author is an economist and former chief consultant to the Ministry of Finance

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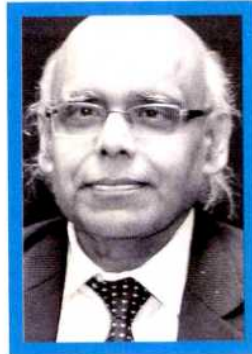
Revenue Shortfall and Missed Chances

The underlying constraint under which Budget 2015/16 was prepared is the revenue shortfall in 2014/15. As per the revised estimates, this shortfall in the Centre's gross tax revenues compared to the budget estimates, amounted to ₹1,13,133 crore, that is close to 0.9 per cent of GDP.

It occurred across the board but the fall was largest in domestic indirect taxes such as central excise duties and service tax, which together fell short by about ₹70,000 crore compared to the budget estimates. There was also an underachievement of the budgeted disinvestment target by close to ₹30,000 crore.

Given that the government had decided to stick to the 2014/15 fiscal deficit of 4.1 per cent, the burden of adjustment fell on expenditure, which had to be cut by a corresponding amount. Most of this adjustment had to be done on capital expenditure, which fell by about ₹34,000 crore or 0.3 percentage points of GDP. Because of the expenditure compression, the government policy becomes contractionary.

Although the advance GDP estimates put 2014/15 GDP growth at 7.4 per cent, there are issues with this number both in terms of inconsistency with other indicators of economic activity as also because of the contractionary stance of the government. In later versions of growth estimates, we may well see a downward revision of the 2014/15 real growth



“An area where Jaitley proved to be timid was subsidy cut”

GDP comes directly from the central budget. It is a pity that even the additional fiscal space of 0.3 percentage points of GDP in terms of fiscal deficit could not be fully used to increase capital expenditure.

Some people argue that we have existing unutilised capacity which can be used first before additional capacity needs to be created. On the demand side also, there is hardly any support coming from the Budget. The budgeted increase in total government expenditure is only 5.7 per cent in nominal terms with plan expenditure slated to fall. Nor did the Budget provide any space for increase in private disposable incomes through, for example, an increased income tax exemption limit.

Clearly, any tangible rise in investment rate does not appear to be on cards. Would it come from the state governments? Contrary to general belief, there is no tangible increase in the overall transfers to

the state governments from the Centre. States have also suffered revenue shortfall as most of it comes from indirect taxes. These are ad valorem in nature and linked to the fall in the inflation rate, including the fall in prices of petroleum products. With the continuing downslide of inflation, the central and state governments may be looking at falling buoyancy of their tax revenues even in 2015/16.

Comparing the mid-point of this range with the 7.4 per cent growth of 2014/15, an increase of about 0.9 percentage points is being targeted. This requires an increase in the investment rate of at least four percentage points of GDP.

Of this, only 0.2 percentage points of

the state governments from the Centre. States have also suffered revenue shortfall as most of it comes from indirect taxes. These are ad valorem in nature and linked to the fall in the inflation rate, including the fall in prices of petroleum products. With the continuing downslide of inflation, the central and state governments may be looking at falling buoyancy of their tax revenues even in 2015/16.

It is the public sector along with the departmental enterprises and the private sector that will have to perform extra if we are to see India's growth story through. With inflation in general and petroleum product prices in particular keeping low, household demand would eventually pick up as their real disposable income increases. The public sector may also be persuaded to activate their expansion plans aggressively.

Speaking of aggressive approaches, the Centre's policy strategists clearly missed the chance of eliminating the distinction between plan and non-plan expenditures. The 14th Finance Commission merged plan and non-plan expenditures in making their assessments.

We know that the total central government expenditure at 12.6 per cent of GDP is at a historical low because of the resource crunch. The one area where Finance Minister Arun Jaitley proved to be timid was subsidy cut. It is surprising as to why subsidies were not brought below 1 per cent of GDP. May be the cricketer in the finance minister was waiting for appropriate signals from some politically-oriented team owner. ♦

The writer is Chief Policy Advisor, EY India, and former member of the 12th Finance Commission



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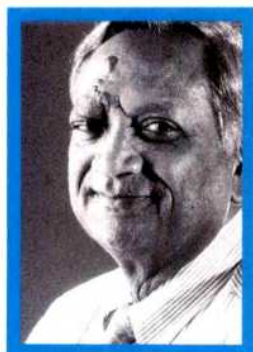
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Need GST to Revamp Indirect Tax

The Economic Survey 2014/15, released on the day before the Union Budget 2015/16, presaged a key feature of the Modi government's strategy for policy reforms: "creative incrementalism ...could cumulate to big bang reforms".

The Budget proposes numerous changes in both direct and indirect taxes which can fit the label of creative incrementalism. The direct tax changes, while incremental, do indeed amount to a substantial reform. The government proposes to reduce corporate tax rate from 30 per cent to 25 per cent, phase out selective incentives, defer the general anti-avoidance rules (GAAR), and implement place of effective management and control (POEM) test for determining whether companies carrying on businesses outside India are subject to tax in India. With these proposals, the government will have implemented substantial parts of the Direct Taxes Code (DTC), obviating the need to proceed with what is left in the DTC Bill.

In contrast, the indirect tax proposals, while numerous and in some cases substantial, constitute just a patchwork, designed to address the anomalies of the current system. Rather than obviating the need for a major reform, they point to the urgency of the big bang reform, i.e., the GST. The measures proposed are nei-



“The indirect tax proposals, while numerous and in some cases substantial, are designed to address the anomalies of the current system”

To garner more revenues, the service tax base has been expanded to include all services provided by the government, other than selected services such as water supply, public health and slum improvement. The tax base has also been expanded to include services provided to governments by way of construction, repairs and maintenance. There are complex changes in the scope of entertainment services, most of which will now become taxable with the exception of admissions to exhibitions of cinematographic film, cir-

ther a substitute for GST, nor helpful in paving the way for it. For example, to address the inverted duty structure, which adversely affects manufacturing in India (such as of mobile phones), and incentivises import of finished goods, the Budget reduces or eliminates duties on inputs for use in electronics manufacturing. Excise duty on mobile phones has been increased from 6 per cent to 12.5 per cent to reduce the bias in favour of imported mobiles. Duty concessions have been extended to imports of naphtha, iron and steel, copper and brass scrap, which are inputs to further manufacturing.

cus, recognised sporting events and theatrical performances. In the area of e-commerce, aggregators of services, such as Uber, will now be required to account for tax on the services, even if operating from outside India.

There are other changes in excise and service tax base and rates, such as those for peanut butter, flavoured and condensed milk, air travel, services of mutual fund agents, soft drinks and tobacco. The biggest change is the increase in service tax rate from 12.36 per cent to 14 per cent, and by a further 2 per cent to fund the *Swachh Bharat Abhiyaan*. This increase could prove to be a damper for investment and economic growth, as a large part of it is collected from B2B transactions and is not fully creditable to businesses. It will also add to the production and distribution costs.

The sheer magnitude of these changes is indicative of the imperfections and anomalies of our current indirect tax regime. Though well intentioned, they fail to provide lasting solutions. They call for a comprehensive revamp of the current regime through the introduction of GST. The Finance Minister reaffirms the introduction of this landmark reform in 2016, but the roadmap is still missing. Without it, the business community will not be able to plan for transition to the new regime. A mere reaffirmation of the date is too little, too late. Without any clarity on the compliance rules and procedures, it will be challenging for them to design the compliance framework for GST. ♦

The author is Tax Partner – Policy Advisory Services, EY. Views are personal

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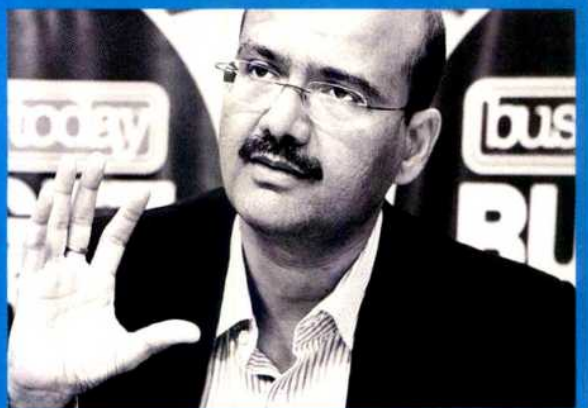
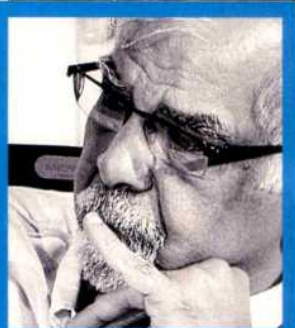
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BUDGETING FOR CHANGE

Panellists at BT's Budget 2015/16 discussion were of the view that the FM missed certain opportunities, but it was well-intentioned and a step in the right direction



(Clockwise, from top left) D.K. Srivastava, Chief Policy Adviser, EY India; Surjit Bhalla, Managing Director, Oxus Research; Laveesh Bhandari, Director and Chief Economist, Indicus Analytics; M.V. Rajeev Gowda, Congress Spokesperson and Rajya Sabha MP; Sumant Sinha, Founder Chairman and CEO

The first full Budget of the Narendra Modi government has lots of good stuff and may be described as a "Chhoti Chhoti Bang Bang" Budget. But will this help India in its journey towards a modern and competitive economy? What are the game changers and how inflationary is it? To find out all this, and

more, *BT's* Prosenjit Datta and Shweta Punj moderated a discussion with D.K. Srivastava, Chief Policy Advisor, EY India; Surjit Bhalla, Managing Director, Oxus Research; Laveesh Bhandari, Director and Chief Economist, Indicus Analytics; M.V. Rajeev Gowda, Congress Spokesperson, and Rajya Sabha MP; Sumant Sinha, Founder Chairman & CEO, RenewPower Ventures; Ajit Ranade, Chief Economist, Aditya Birla Group; and R. Venkataraman, Group Managing Director and Co-founder, India Info-line. Excerpts:

Prosenjit Datta: Your opening comments on the Union Budget, please.

D.K. Srivastava: The Finance Minister is planning for an increase in investment in line with the targeted growth rate of about four percentage points, but hardly anything is going to come from the Union

Budget or from the state Budgets directly. This is so, because they are facing the same kind of problems. There is negligible increase from transfers. They are also suffering revenue erosion because sales taxes are ad-valorem and both the state and central governments depend a lot on petroleum taxes. Therefore, as far as government finances are concerned, stimulus will not come. It is not going to support the investment side, nor is it going to support the

consumption side. In fact, the size of the central Budget is actually the lowest in the last two to three years. It is now about 12.6 per cent of the gross domestic product (GDP), down from about 13.5 per cent. The impact of the Budget, therefore, is not going to be introduced directly through government intervention. It is neither going to support additional demand nor hike investment rates. Most of that will now have to come from the stimuli that might be introduced and might affect the behaviour of the private sector.

Surjit Bhalla: There are a series of policy initiatives taken in the Budget that suggests a definite change in the mindset, as well as in

the path towards how one manages an economy. Most of them, if not all, have to do with the lowering of the role of the states. Then, lot of us had expected that there will be significant step forward on subsidies, including fertiliser and food. But, it is not there in fine print, as to how

these subsidies will be replaced by the cash transfer schemes. They said that ₹1 a month is all you need to pay to purchase... this is the change in the mindset. Perhaps, over time, they will increase the figure. I think they will. Then, there was an important message about black money abroad. How much one will achieve can be questioned, but I think as part of the sentiment you will need to have severe punishments so that some of the people will have some fear. My personal view, however, is that the black money issue has to be first addressed domestically. It's not so much about the foreign accounts. I'm disappointed that (nothing was done) about the black money that comes out of property transactions, which is the major generator of black money in India.

Prosenjit Datta: One question that nobody is asking is about the tax base. The number of individual tax payers has remained more or less the same for the last 10 years. Right?

Surjit Bhalla: No. I have explicitly done numbers on this and, today, the number of individual tax payers is 20 per cent more than what it was, that is, around 20 per cent of the workforce. Almost 80 million people are eligible to come under the tax net. Whether they pay tax or not is a separate issue. A decade ago it was around 40 million-45 million. The tax base has broadened. That is why direct taxes have done phenomenally well along with corporate tax. And the average compliance ratio has gone up to around 55 per cent from the 30-35 per cent, 10 years ago. This still means that you will not be getting about half the taxes that you should be collecting, because of noncompliance. We started off from a very low collection ratio of 15-20 per cent. Most of the rich pay taxes and most of the people having



LAVEESH BHANDARI

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an income of below ₹7.5 lakh pay taxes because they are salaried.

Laveesh Bhandari: Is this Budget taking us towards a goal 20 years from now? If you have a long-term vision for India, the first thing you must do is to be on the same page with the people. This Budget has a credible piece of document, something that was not true of most recent Budgets, including the last one, and, of course, towards the last part of the UPA years. There was lot of fudging of numbers and so on. On that account, this Budget, at least, is a very very transparent document and, I think, the government needs to be congratulated for that. I do like the growth projections, the revenue projections and, I think, they are based on reality and they are not dreamt up, which they were till now. We have decided that Aadhar Card will be the way forward for India. Direct benefit transfers will be the way forward. However, I do not see how fertiliser subsidies, food subsidies and fuel subsidies are going to be addressed. If you do not address these three elements, you automatically slow down the fiscal consolidation process. I think this was something which this Budget definitely needed, and the fact that nothing has been said in this regard, is a major flaw. A very very UPA style (of functioning). I do not see any movement towards an improvement of the efficiency of the government. I believe that health and education expenditure cut is not a cut, and no one is going to cut it. It's just that states will have to bear a greater burden, as they should. I feel, overall, especially on the allocation on expenditure, this Budget could have done much more than it has.

Prosenjit Datta: Do they have the money to do it?

Laveesh Bhandari: Obviously they did not. The point is not about not having the money. The point is about

what statements you make right now. The deficit figure has already been stretched a bit to make investments and there are enough ways of funding these issues, if you really want to. Anyway, on the taxation side, I'm not sure on the deductions. We will have fewer deductions, but what kind of deductions, we do not know. There are a couple of things that I really didn't like. For example, for every new problem you cannot have a new law. It is the last thing that you want to do. In this regard, the government goes back to the UPA days. Most of these problems can be corrected without any new law.

Shweta Punj: What are you referring to?

Laveesh Bhandari: If you go through the Budget, there are mentions of at least seven or eight proposed new laws. On the financial side, mostly. Someone in the government, perhaps someone in Niti Ayog, should take a marker and mark out all the new laws that are being thought and talked about and eliminate them. Bibek (Debroy) or (Arvind) Panagariya, anyone can do it.

Surjit Bhalla: Bibek has studied this and has already recommended certain eliminations.

Laveesh Bhandari: We haven't got rid of the Securities Transaction Tax (STT). You need to eliminate it. It's a stupid tax to have. The government is saying all these nice things, but when they are going about doing it, they are following the UPA. I would

really like to see the people who are drafting (these laws) to actually read what the Finance Minister and the Prime Minister are saying, and, I think, that's when this Budget will become really great.

One last point I would like to say. Simplification and rules. You create a better environment for investments by simplification not by creating more rules. For instance, if I really want to get black money back from abroad, by saying that I'm going to go after the people, I will not be able to get it back. If I want to collect more taxes by saying that you have to give PAN number for every ₹1 lakh cheque, believe me, you'll put people in the cash domain instead of getting them in the banking domain.

Rajeev Gowda: I speak for large number of people on India who are let

down by this government's Budget because they had an extraordinary confluence of factors that gave them an opportunity to do something dramatic and transformative. You know, low inflation rate, low oil prices, mandate in the lower house, you know, things like that. We want infrastructure and this Budget does address infrastructure, but even in the economic survey they talk about huge percentage of GDP, about 7.5 per cent, stuck in infrastructure projects. This is probably one of the areas, where much more attention and much more allocation of resources could have yielded much bigger bang. We see much less attention to that. The other factor is the increase



RAJEEV GOWDA

“This Budget does address infrastructure, but there are areas, where much more allocation of resources could have yielded much bigger bang”

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in service tax. Our economy is 50–60 per cent services, and now that service tax has gone up from 12.36 per cent to 14 per cent, there's talk about a couple of more cesses. We don't know how much will get into every single transaction. And even more so as it adds to fuel inflation as well. At a time when inflation is coming down why do we want to do something of that sort and send wrong signals to the RBI and others. Investing a lot

more on financial inclusion, Aadhar and benefits transfer, and finally moving more into mobile and RuPay, are all positive measures. I also like this concept of plug-and-play power projects, because, so far, we did not have that. We have people getting into big investments and then finding themselves stuck because of land and consent, along with various other factors, all of which have their place in a democratic economy and society. Now, if you can come up with more of these kind of initiatives, where you have taken care of everything, then, of course, you'll be able to increase the ease of doing business on

large-scale projects. One worry, of course, is when we have moved towards committing to those deficit targets, and holding on to them, why postpone? And the last point, of course, is why do we need this mega bonanza to corporates? You know the effective tax rates for corporates? It is apparently just about 23–24 per cent. Given that, why do we need to bring it down, when we are otherwise talking about having a challenge

meeting fiscal targets or revenue targets.

Sumant Sinha: The focus has been more around improving the overall economic environment in terms of ease of doing business, and in providing basic security to the common man. I think that's where the thrust has been when it comes to the bankruptcy law. To me that's a very big thing. We have seen messy break-ups



AJIT RANADE

“There is a great alignment between the economic survey vision and what was in this ‘Chhoti Chhoti Bang Bang’ Budget with lots of good stuff”

and unwinding of some of the corporates, particularly in the airlines space. It takes a long time and that also prohibits banks from actually moving their assets faster, unwinding their NPA positions, and so on. It is a fairly big move forward. The second big thrust to me has been on infrastructure and the creation of National Infrastructure Investment Fund with a ₹20,000 crore equity corpus, which can be leveraged at least eight to 10 times. This will make almost ₹2 lakh crore of extra funds available for investment. That's a lot.

R. Venkataraman:

The markets had huge expectations from the Budget. Lot of hype and expectations were built around it, especially on

the back of what the Finance Minister had said last time, that, he didn't have adequate time to prepare for his maiden Budget. I think there was some kind of disappointment. The minister has taken a very pragmatic step in delaying the fiscal deficit target instead of sticking to it without taking cognisance of the overall circumstances. The second point is related to subsidies. This government is now clearly having a change in mind set

when it comes to dealing with subsidies; ₹1 per month is a very small amount, but it is a big mind set change because, previously, all governments were much more used to giving things for free. So, I think, the government, in the next six to 12 months, will take concrete steps to rationalise subsidies and better targeting of subsidies. Especially with the JAM (*Jan Dhan Yojana, Aadhar and mobile*). I'm sure they will make sure that people pay for JAM instead of expecting JAM for free. Postponement of GAAR to all transactions after April 1 is again a step in the right direction because everybody wants a predictive tax environment and nobody wants files to be opened for transactions done 3–4 years ago. Typically, markets reflect corporate earnings. So, last year, we had a stellar performance from the market, the markets returned almost 40 per cent if you consider the past one year. This year, I think markets should give 15–17 per cent returns, which is broadly in line with the earnings growth. The re-rating story of India is more or less over.

Ajit Ranade: I must say that there's been a great alignment between the economic survey vision and what was in the Budget, in the sense, that the economic survey had made it amply clear that this is not a roadmap and you don't expect big bang reforms. This is the first year of a five-year journey, if not longer. In that sense, I'd like to call it a “Chhoti Chhoti Bang Bang” Budget with lots of good stuff. But, there are lots of stuff as well that we could object to. A standard criticism, of course, is that it was a missed opportunity. JAM is obviously a game changer. It was referred to in the economic survey and the Budget is using the concept of triangulating between these three sources. Direct transfer through bank accounts, triangulation of identity through Aadhar and mobile. In some way, it is a good thing because it validates the concept of Aadhar. The second good



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thing about the Budget is SARFAESI (The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002). There was a big anomaly in the Act, which gave bankers, banks and lenders to exercise their rights, but it was not extended to non-banking finance companies. It's a good thing that at least the larger NBFCs have been brought under it. Lots of good things for SMEs, too. I like the concept of an electronic market place for receivables. It's called loan discounting or factoring. This is a concept that was being pushed by the RBI for some time, and it's now got a formal nod. It's positive for SMEs because they often get squeezed between customers and the market. The fourth positive thing is that the government has taken the first step towards a universal social security that is potentially a very big thing. The fifth is gold monetisation. I hope they will be able to float this gold instrument or gold substitute paper delinked, unlike an exchange-traded fund. This is not backed by any metal. Simply a fee-add paper like the Kisan Vikas Patra.

One of the big challenges facing the country today is the stressed assets of the banking sector. It's not because of wilful defaulters, but for huge bottlenecks between the consortium lenders and the various states of NPAs. Here was the very big missed opportunity. It is not only about providing capital but the government should have set up, say, a three-member empowered committee outside the Finance Ministry to give the banks, say, a 200-day or 100-day time table to sort out the top 200 NPAs in the country.

Overall, the budget has provided little bit of inflationary signals. For example, a hike on coal freight in the Railways Budget. There's also an increase in service tax rates, and in various cesses. I call it a pool of cess rather than cesspool. There are now three kinds of cesses: a clean energy cess, a *Swachh Bharat* cess, and a road

cess. And, all of it, if you incrementally add up, is definitely inflationary. My last point is about plan versus non-plan. Since the Planning Commission is being revamped, why do we still have the plan versus non-plan approach? They had plenty of time, almost nine months since August, to work on this and make it like a capex versus revenue spending structure. But, overall, this is to be seen as the first Budget of a five-year journey.

R. Venkataraman:

This is a pragmatic and growth-oriented Budget. There have been some negatives. One such negative is from the market's perspective. It is about recapitalisation or capitalisation of public sector banks. Apart from that, it was more to do with expectations and most market observers are not quite happy. The expectations were huge and is difficult to manage such expectations. But, it is a practical Budget.

Shweta Punj: Is the government taking too much risk? When one talks about financing infrastructure projects entirely on one's own, one has to take huge amounts of debt. Are we putting too much at stake?

Surjit Bhalla: Currently, 60-70 per cent of fiscal deficit is due to interest payments. But the funny thing about deficits is that if you achieve growth, your deficits go down, and if interest rates are cut, even then, your deficits go down. So, I think, the ₹70,000 crore that the Centre is planning to spend,

should be the minimum amount that they should be spending.

Prosenjit Datta: How inflationary is the Budget?



SUMANT SINHA

“The Budget has lots of little things that would help de-bottleneck different sectors of the Indian economy and make ease of doing business better”

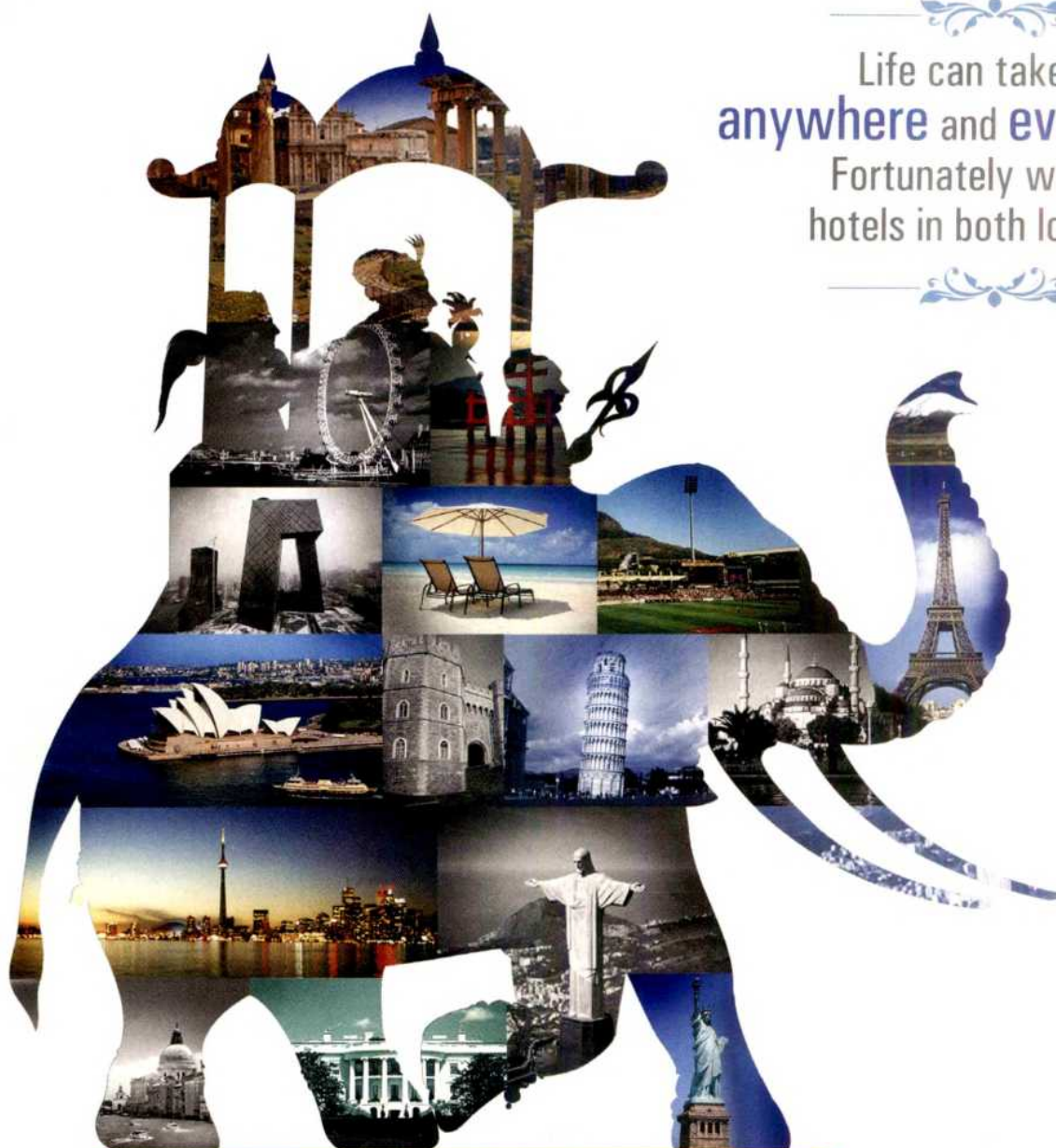
Surjit Bhalla: The RBI believes that larger the deficit, greater the inflation. There is no empirical relationship between the two. In this case, by increasing freight and service tax, you are decreasing the Budget deficit. Damned if you do, damned if you don't. Inflation will be there.

Rajeev Gowda: You see the RBI is one of the key players in this growth story, because if it cuts rates you will have an impetus to growth. There is no argument on that. Here, the combination of freight increases, of cesses, and of service tax increases, will have an inflationary impact on inflation and, therefore, it sends

the wrong signal at a time when you actually want to go the other way. So why do it?

Laveesh Bhandari: At this point in time you want to allow the RBI a freeway so that it does reduce interest rates. Does this Budget do that? In short, it does not.

D.K. Srivastava: I think the point about inflation is that it's going to be cost push, most of it will translate into administrative prices moving up and, therefore, there is an implicit signal that there is an inflationary component in this. The broad point, however, is that inflation is actually heading downwards right now. In fact,



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WPI (wholesale price index) has gone into the negative zone. So, the impact of these cost push factors would be quite incremental.

Prosenjit Datta: Is there a lot more money going to the states? There seems to be a difference in the degree of money going into different states.

D.K. Srivastava: Lot more money is definitely not going to the states.

Surjit Bhalla: But, won't the states fight for getting the base realigned?

D.K. Srivastava: No. That calculation is over. The states cannot fight because the Finance Commission is not there to revise those assumptions.

Ajit Ranade: According to the Budget document of the Finance Ministry website, the number is 37, it has gone up from 36 per cent to 37 per cent – the devolution to states out of the total spendings.

Rajeev Gowda: The Finance Minister went on TV before the Budget and said that we are making this dramatic announcement of devolution by accepting the Finance Commission's numbers. He also said that we are cutting down social sector spendings because the states are going to do it. Now we are concerned whether there is actually money for that. If one year later we find out that inflation has gone up as a result and these amounts have not reached the states nor has it been spent, what are we going to say? We

are going to take back our words and say my God, he pulled a fast one.

Laveesh Bhandari: The most critical part of fiscal federalism is not that greater amounts have been given, but greater amounts of untied funds have been given. The most important part is that this government has appreciated and taken on the task of fiscal federalism.



R. VENKATARAMAN

“This is a pragmatic and growth-oriented Budget. There have been some negatives. One such negative is from the market's perspective”

defining idea behind it. But there are lots of different little things. When you add them all up, it makes ease of doing business better, going forward. And, that's really where the focus has been – just trying to de-bottleneck different sectors of the Indian economy and make it easier for everyone.

Surjit Bhalla: On that, I am ready to challenge anyone. Name one central idea, a big bang idea that we can

Shweta Punj: One thing that makes me optimistic is the recognition of the unorganised and the informal sector, which creates over 100 million jobs. Could this be a potential game changer?

Rajeev Gowda: There is this new Mudra Bank where you are focussed on Dalit entrepreneurs and NBFCs, and giving them some sort of cushion so that they can lend more. It is targeted at groups which historically didn't have an opportunity to become entrepreneurs.

Sumant Sinha: There is no one thing that one can point to and that is why people have an objection to this Budget. It's not a big bang Budget because it does not have one central

have, other than freeing up agriculture. There isn't any. They are all incremental. And, in that sense, it's very unfair, you cannot have a big bang Budget in an economy any more. You could have one in 1991.

Ajit Ranade: That's exactly what the economic survey did. It said: One, India is not under any economic or financial crisis right now. Two, power is diffused vertically and horizontally – vertically between the states and the Centre, horizontally between the governments, courts and the CAG. In such a system, you can't have a decisive game-changing push and, perhaps, it is unadvisable. You have to look at these small small things, but they are potentially very important. Universal insurance, social security, focus on SMEs, using JAM for various beneficiaries, all of them are important individually and cumulatively they add up to something significant.

Prosenjit Datta: What will happen if there is a crude price spike?

Ajit Ranade: Given that the oil bounty was a big background factor to this Budget, if crude spikes, and I think the chances are very low, then there will be slippage on fiscal deficit. There may be compromise on various spending ambitions. But thankfully, according to me, the outlook for oil prices is range bound at \$60 to \$65 for the next 12 months.

D.K. Srivastava: I think I agree with that, \$60 to \$65 is the expected rate. We don't expect any steep rise. There may be some variation. If it were to increase much more beyond this, then, of course, it will have adverse impacts in the medium- to long-term for the Indian economy. The benefit of the fall in crude price is actually going to come to the Indian economy quite slowly. The first impact was the fall in inflation. Overall, prices of goods and services will fall, demand from the private sector will increase, cost of production will go down, our

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competitiveness will increase and, therefore, the benefits of the crude oil price collapse, as it were, are yet to really take off. They will slowly factor in. At this time a steady level of crude oil price of \$60-65 will be very beneficial for the Indian economy.

Laveesh Bhandari: I do believe they will harden and the benefit that we got will reduce a bit. That, however, does not mean that it will get completely eliminated. The goodies we got will reduce in size. But having said that, there will be some other effects that are happening globally which are going to hit us not very positively. We do need to have a low inflation climate. That's the only way to deal with global ups and downs.

Rajeev Gowda: The reason why everyone was hoping for the big bangs rather than the chhoti chhoti ones, is the rhetoric of the election campaign. Essentially, what we have is a huge viability gap between what Mr. Modi promised and what Mr. Jaitley delivered in the Budget.

Shweta Punj: Some closing comments from everyone, please.

Ajit Ranade: In the conventional scheme of things, this Budget would get eight out of 10, but given the huge expectations that were riding on this, even that is not good enough. In a way it's unfair to the Finance Minister, because of the competing objectives he had to meet. Perhaps, the game is really about expectations management and not so much about the actual numbers. I think there are many positives. SARFAESI combined with SME is a big thing. Universalising first step towards social security is another. I personally like the gold monetisation initiative. The big thing that was missed out is the undercapitalisation of public sector banks and a focussed push to untangling the NPAs, which I think is holding back private sector investments. Two, we could have perhaps tried to keep the

3.6 per cent promise.

D.K. Srivastava: Well, I think it's a missed opportunity. The government should have eliminated the difference between plan and non-plan expenditures. This was the right opportunity. We know that we are going to live with a much smaller size of government as a whole, relative to what we need in terms of education and health needs, and so on, and, therefore, whatever small size of government we have, we must efficiently use those resources. This whole distinction of non-plan and plan is very inefficient. It actually emphasises creation of incomplete assets and non-maintenance of completed assets and, therefore, if we are going to live with a relatively small size of government, we must become more efficient. This is first step that could have been taken. If not now, may be by next year, the government and the Finance Minister must have the courage to take that up.

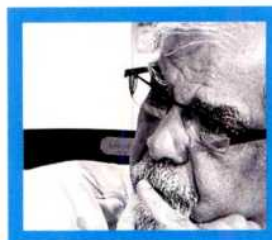
Surjit Bhalla: I think this Budget is fundamentally revolutionary in the following very important sense. The first, and very important, step has been taken to make India both a modern and a competitive economy. This is a major message of the Budget and all the others – the economic surveys, Finance Commission and Railways Budget – have been pointing at the same. The content of the Budget should be looked at. The first step has been taken towards a very competitive economy which we must have in this day and age to survive.

Laveesh Bhandari: I think this Budget needs to be seen from two different angles. One, the top level angle, where the broad direction is being spelt out: transparency, federalism

and greater investment. And, I think, the Budget does a great job. The second level, is the implementation part. Here, the Budget needs a bit of (improvement). It seems people who drafted the vision did not bother to go with the nitty gritty. So the Budget does fall on the details, but hopefully, next time people who draft the Budget will be able to take care of the details.

Rajeev Gowda: The one thing interesting about India is that from 1991 we have had many different governments come and go, and we have seen essentially a trajectory that is broadly maintained – liberalisation, making the economy more modern,

competitive and humane. In the last 10 years we have seen lot of programmes focussed on initiatives to pay attention to the people at the base of the pyramid, people who had been left behind by the growth story. The good thing about this Budget and the government's initiatives is that it is continuing in those directions. We created subsistence, survival, income, food and, now, they are going to add the other dimensions that financial inclusion is all about – pensions and insurance, and everything else. I am really glad that has not been forsaken in this mood to please the corporate sector. ♦



SURJIT BHALLA

“I think this Budget is fundamentally revolutionary, in the sense that a step has been taken to make India both a modern and a competitive economy”

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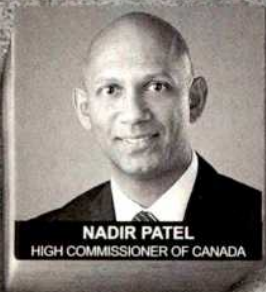
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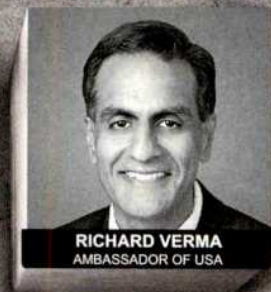
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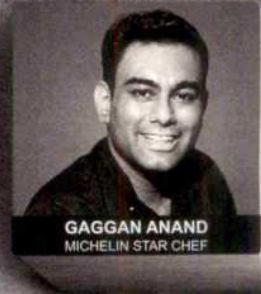
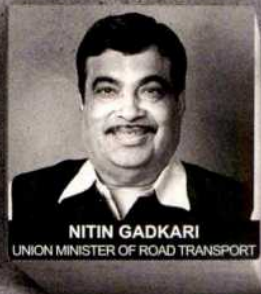
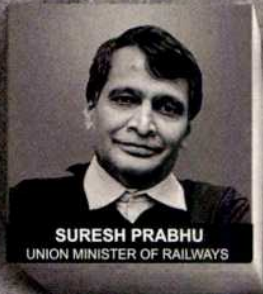
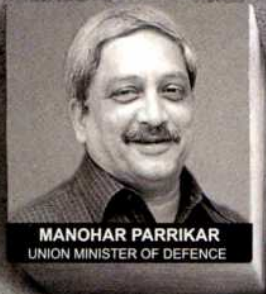
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STARTING TO UNDERSTAND
THAT SOME MANAGERIAL
KNOWLEDGE IS UNIVERSAL
AND SOME IS SPECIFIC TO
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By TARUN KHANNA

ILLUSTRATIONS BY RAJ VERMA



W

hether as managers or as academics, we study business to extract learning, formalise it, and apply it to puzzles we wish to solve. That's why we go to business school, why we write case studies and develop analytic frameworks, why we read HBR.

I believe deeply in the importance of that work: I've spent my career studying business as it is practised in varied global settings.

But I've come to a conclusion that may surprise you: Trying to apply management practices uniformly across geographies is a fool's errand, much as we'd like to think otherwise. To be sure, plenty of aspirations enjoy wide if not universal acceptance. Most entrepreneurs and managers agree, for example, that creating value and motivating talent are at the heart of what they do. But once you drill below the homilies, differences quickly emerge over what constitutes value and how to motivate people. That's because conditions differ enormously from place to place, in ways that aren't easy to codify – conditions not just of economic development but of institutional character, physical geography, educational norms, language, and culture. Students of management once thought that best manufacturing practices (to take one example) were sufficiently established that processes merely needed tweaking to fit local conditions. More often, it turns out, they need radical reworking – not because the technology is wrong but because everything surrounding the technology changes how it will work.

It's not that we're ignoring the problem – not at all. Business schools increasingly offer opportunities for stu-

dents and managers to study practices abroad. At Harvard Business School, where I teach, international research is essential to our mission, and we now send first-year MBA students out into the world to briefly experience the challenges local businesses face. Nonetheless, I continually find that people overestimate what they know about how to succeed in other countries.

Context matters. This is not news to social scientists, or indeed to my colleagues who study leadership, but we have paid it insufficient attention in the field of management. There is nothing wrong with the analytic tools we have at our disposal, but their application requires careful thought. It requires *contextual intelligence*: the ability to understand the limits of our knowledge and to adapt that knowledge to an environment different from the one in which it was developed. (The term is not new; my HBS colleagues Anthony Mayo and Nitin Nohria have recently used it in the pages of HBR, and academic references date from the mid-1980s.) Until we acquire and apply this kind of intelligence, the failure rate for cross-border businesses will remain high, our ability to learn from experiments unfolding across the globe will remain limited, and the promise of healthy growth worldwide will remain unfulfilled.

Why Knowledge Often Doesn't Cross Borders

I started thinking about contextual intelligence some years ago, when my colleague Jan Rivkin and I studied how profitable different industries were in various countries. To say that what we found surprised us would be an understatement.

First some background. Into the 1990s, empirical economists studying the economies of the OECD member countries, whose data were readily available, concluded that similar industries tended to have similar structures and deliver similar economic returns. This led to a widespread assumption that a given industry would be just as profitable or unprofitable in any country – and that industry analysis, one of the most rigorous tools we have, would support that assumption. But when data from multiple *non-OECD* countries became available, we could not replicate those results. Knowing something about the performance of a particular industry in one country was no guarantee that we could predict its structure or returns elsewhere. (See *How Well Correlated Is Industry Profitability Across Countries?*)

To see why performance might vary so much, consider the cement industry. The technology for manufacturing cement is similar everywhere, but individual cement plants are located within specific contexts that vary widely. Corrupt materials suppliers may adulterate the mixtures that go into cement. Unions may support or impede plant operations. Finished cement may be sold to construction firms in bulk or to individuals in bags. Such variables often outweigh the unifying effect of a common technology. A

How Well Correlated Is Industry Profitability Across Countries?

By Tarun Khanna and Jan W. Rivkin

Until recently, many strategists believed that patterns of profitability in developed countries would show up in less developed economies as well. They couldn't know for sure, because empirical research on business strategy had focused on a small handful of advanced economies. But it was often assumed that if an industry was highly profitable in, say, Germany, it would also be highly profitable in Thailand or Brazil.

In 2001, as good data on emerging markets started to become available, we checked that assumption by computing the average profitability

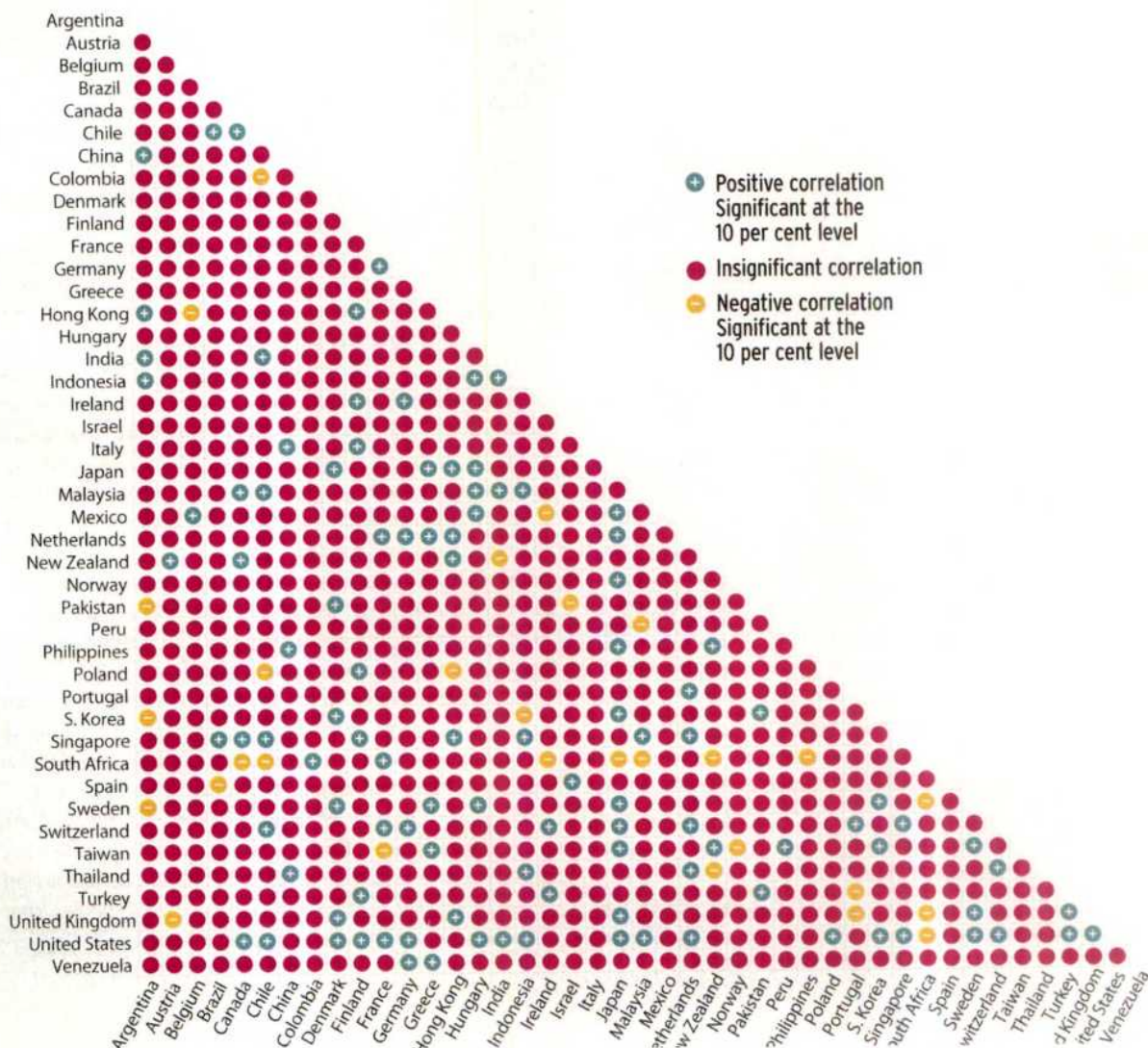
of individual industries in each of 43 countries and checking correlation between the countries in every pairing. (For a copy of our working paper, write to tkhanna@hbs.edu.)

If it were indeed true that profitability is predictable from country to country, most of this chart would be aqua, reflecting significant positive correlation (meaning that industries profitable in one country are likely to be so in others, to a degree beyond the relationship prone to arise by chance). Such correlation, however, exists in only about 11 per cent of cases, and it's often between similar

nations – the United States and Canada, for example.

Instead the chart is dominated by magenta: There's no significant correlation of industry profitability between most of these country pairs. The fact that an industry is highly profitable in Sweden tells us nothing about whether it will be profitable in Singapore.

The implications are alarming. Companies enter new markets all the time relying on what they think they know about how their industry works and the technical competencies that have allowed them to succeed in their home markets. But given the results of our study, it's not much of a stretch to say that what you learn in your home market about a particular industry may have very little to do with what you'll need to succeed in a new market.



cement plant manager moving to an unfamiliar setting would indeed have a leg-up on someone who had never managed such a plant before, but not by nearly as much as she might think.

Rather than assume that technical knowledge will trump local conditions, we should expect *institutional context* to significantly affect industry structure. Each of Michael Porter's five forces (which together describe industry structure) is influenced by local institutions, such as those that enforce contracts and provide capital. In a country where only established players have access to these, incumbent cement producers can prevent the emergence of new rivals. That consolidation of power means they can keep prices high. To use the language of business strategists, the logic of how value is created and divided among industry participants is unchanged, but its application is constrained by contextual variables. The institutional

Though Metro ultimately created *more* value in India than elsewhere, it did so only after very slow experimentation



context affects the cement maker's profitability far more than how good she is at producing cement.

Much of my academic work has focused on institutional context. With my colleague Krishna Palepu, I've explored the idea that developing countries typically lack the "specialised intermediaries" that allow new enterprises to reach a broad market: courts that adjudicate disputes, venture capitalists that lend money, accreditation agencies that corroborate claims, and so on. Over time these voids are filled by entrepreneurs and better-run governments, and eventually the country "emerges" with a formal economy that functions reasonably well. Our framework has proved useful to businesses and scholars trying to understand a particular country's institutional context and how to build a business within it. (Our book *Winning in Emerging Markets: A Road Map for Strategy and Execution* looks at institutional voids in more depth.)

Contextual intelligence requires moving far beyond an analysis of institutional context into areas as diverse as

intellectual property rights, aesthetic preferences, attitudes towards power, beliefs about the free market, and even religious differences. The most difficult work is often the "soft" work of adjusting mental models, learning to differentiate between universal principles and their specific embodiments, and being open to new ideas.

Even Good Companies Have a Really Hard Time

Businesses that have achieved success in one market invariably have tightly woven operating models and highly disciplined cultures that fit that market's context – so they sometimes find it *more* difficult to pull those things apart and rebuild than other companies do. Shifting into a new context may be straightforward if just one or two parts of the model need to change. But generally the adaptations required are far more complicated than that. In addition,

executives rarely understand precisely why their operating model works, which makes reverse engineering all the more difficult, even for highly successful companies.

Metro Cash & Carry, a big-box wholesaler that provides urban businesses with fresh foods and dry goods, illustrates this point well. Metro successfully expanded from Germany to other parts of Western Europe and then to Eastern Europe and Russia, learning from each experience. So when the company entered the Chinese market, Metro executives knew they'd have to make adjustments but assumed that their basic recipe for success, tempered by what they'd learned, was transferable. They

did indeed get a lot right, partly by developing effective partnerships and partly by helping provincial governments experiment with advanced food-safety techniques.

Nonetheless, the company ran into multiple challenges it had not fully anticipated. In any given location in China, learning how to work with the constellation of political and economic players took months. Lessons learned in one place often didn't transfer to other places. Local competition was tougher overall than it had been in Eastern Europe and Russia (which Metro entered in an era of generalised scarcity, in the years after the Berlin Wall came down). Metro managers, who were used to large, formal competitors, experienced the multiplicity of agile rivals in the informal economy as almost a "fog of war." Other challenges resulted from local tastes: Many consumers preferred to buy live or freshly butchered animals from wet markets, for example. As a result of these difficulties, the company didn't break even in China until 2008 – 14 years after entering the market.



Tuning in to Cultural Differences

Understanding local variations involves observing both customers and employees. On the "buy" side, differing aesthetic tastes aren't immediately apparent to many managers, but they matter a lot

To succeed in India, Metro Cash & Carry increased the visual density of its stores' previously uncluttered aisles so that they would more closely resemble crowded Indian street markets. In contrast, eBay stuck with its US playbook in China, allowing Taobao to win the Chinese market in less than three years; the upstart succeeded in part by capitalising on local responsiveness to colourful, active websites.

Computer scientists and cognitive psychologists have demonstrated that different cultural groups have differing tastes in how information and products are represented. (An interactive at labinthewild.org allows you to compare your engagement style with that of diverse other respondents.)

Tastes also differ in luxury services; for instance, hotel room décor that appeals to one set of customers may alienate another. Artwork evok-

ing England in its imperial age may be pleasing in York but irritating in Mumbai. Chinese executives accustomed to celebratory red-and-gold furnishings may perceive modernist minimalism in their Berlin or New York hotel rooms as cold and hostile. Religious imagery is similarly controversial: The Hindu goddess of wealth is often used to connect products to prosperity in India, whereas companies in the West rarely use religious iconography to market their wares.

Advertising agencies must work with different manifestations of universal values all the time. Bartle Bogle Hegarty's campaign for Johnnie Walker scotch whisky, for example, sought to link the product to the notion of a continual quest for self-improvement, which research had shown was the most powerful indicator of eventual male success. The iconic brand emblem – a striding man – embodied the idea

that one should "keep walking". But what worked in the West – ads that focused on individual progress – failed in China and Thailand, where customers responded instead to evocations of camaraderie, shared commitment, and collective advancement. (One of the creative leads of the campaign speculated with me recently that the man's striding from left to right might well play differently in societies that write from right to left.)

On the "sell" side, managers must evaluate how to align incentives, motivation, and retention policies with local norms and expectations. If a country lacks efficient stock markets, for example, making stock options part of a compensation package becomes problematic. Similarly, individualised compensation schemes may be ineffective in an environment where collectivist values dominate.

India turned out to be even tougher, although Metro had good reasons for optimism: It saw a way to cut out middlemen and thereby lower prices. It offered high-quality, standardised products in an environment with endemic food-quality and hygiene problems and staggering waste. Its wide assortment of goods seemed sure to appeal to its target customers – mom-and-pop retailers, which are so tightly packed together that India has the highest retailer density per capita in the world.

Still, Metro confronted obstacles different from those it had encountered in other markets. It had trouble getting around an anachronistic law that required farmers to sell all produce through government-run auctions. Traders and retailers that Metro thought would benefit from its presence put up raucous resistance. And for the first time in the company's experience, no one seemed to be in charge: Metro couldn't find a single-point political authority willing to advocate for it. In addition, its Indian customers were used to informal sources of credit and found it inconvenient to carry away wholesale quantities of goods and produce, owing to India's dilapidated infrastructure.

Metro's managers took a long time to understand that their model had to change, but they never really contem-

plated giving up. Just because a company is "global," however, doesn't mean it should do business in every country. Sometimes the amount of adaptation needed is so great that its core operating model would fall apart. Though Metro ultimately created *more* value in India than elsewhere, I believe, it did so only after very slow experimentation. This was partly because whatever adaptations the local team proposed and headquarters approved had to unfold in the context of an undisciplined political process and constant shrill criticism from unfamiliar media, often in the vernacular. Also, organisational rigidity had inevitably set in, stemming from individual managers' overconfidence in the formula for past successes. Metro's managers are first-rate, but contextual intelligence can't be rushed or mandated into existence.

The difficulties I describe aren't peculiar to developed-country companies trying to enter emerging markets. Metro's tribulations in India, for example, resemble those that organised commerce faced with the Poujadism of 1950s France, when mom-and-pop businesses were up in arms against the establishment. Germany encountered similar forces in that period. And developing-economy enterprises trying to move into first-world markets have to

change their operating models, too. Whereas at home they may have succeeded by managing around – or taking advantage of – conditions such as a cash-only society, intrusive or corrupt government officials, and a shortage of talent, they face different challenges in developed markets.

Narayana Health, founded in Bangalore, is an example. Its famous cardiac-surgery group performs 12 per cent of the heart operations done in India each year. CABG (coronary artery bypass graft) surgery costs the patient as little as \$2,000, compared with \$60,000 to \$1,00,000 in the United States, yet Narayana's mortality and infection rates are the same as those of its US counterparts. Still, it's unclear whether the group's operating model will transfer easily to the Cayman Islands, where Narayana opened a facility in February 2014. Why? Because it achieved success under specifically Indian conditions: A huge number of patients need the surgery, which means that surgeons quickly acquire expertise and thereby reduce costs. Having to overcome the logistical, financial, and behavioural barriers that kept poor patients away taught valuable lessons. Nurses double as respiratory and occupational therapists, and family members are now enlisted to help provide postoperative care. In addition, construction materials are inexpensive and the loose regulatory culture allows for experimentation. In the Caymans, Narayana will inevitably have to pull apart this operating model, and a coherent replacement will emerge only gradually.

Some early signs are encouraging. The Caymans' material and labour costs are higher than India's, but construction practices honed at home have already allowed Narayana to build a state-of-the-art hospital in the islands for much less than it would have cost in most Western locations. The health group has another big thing going for it: Its culture has been one of experimentation from the beginning. The

What's Universal? What's Context-specific?

Figuring out what will travel from location to location and what won't is essential for nonprofits and fast-growing entrepreneurial ventures as well as for the established companies we've discussed here

Consider Teach for America, a nonprofit started in the late 1980s, which helps talented college graduates spend a few years teaching in America's underperforming schools. It has recently mushroomed into a global network called Teach for All. The core ethos remains the same: Match willing, high-needs schools with recent graduates. But adapting the model requires a fair amount of contextual intelligence. Similarly, Aspiring Minds (of which I am a cofounder), an Indian talent-assessment service aimed at democratising the market for talent, focuses on various out-of-the-mainstream job seekers in different markets.

ORGANISATION METRO CASH & CARRY	TEACH FOR ALL	ASPIRING MINDS
TYPE Large, publicly traded company	Nonprofit	Entrepreneurial venture
SECTOR Wholesale	Education	Talent management
GEOGRAPHICAL SPREAD Germany to elsewhere in Europe, Russia, China, and India	US/UK to global	India to the US, West Asia, and Africa
UNIVERSAL ATTRIBUTES Allows small and medium businesses (such as hoteliers, retailers, and caterers) to access a range of hard and soft goods	Matches accomplished but inexperienced would-be teachers with high-needs schools, over time nurturing a platform from which corporations can re- cruit talent	Helps mainstream corporations and out- of-the-mainstream job seekers find each other using state-of-the- art machine learning algorithms
CONTEXT-SPECIFIC ATTRIBUTES Provides multiple payment and delivery models: conventional cash-and-carry; cash plus delivery; credit plus carry; or credit plus delivery	Identifies high-needs schools in the education system; arranges fund- ing in the absence of a culture of philanthropy; augments ordinary corporate recruiting	Identifies different types of job seekers, such as graduates of lesser-known schools, war veterans, and people educated online; adapts tools to reach and serve those pools



Caymans' very different regulatory systems will limit innovation in health-care delivery methods, but an ingrained habit of questioning assumptions, trying out new approaches, and adjusting them in real time should serve Narayana well as it adapts.

How Can We Get Better at This?

Some of the ways to acquire contextual intelligence are obvious, though they're neither easy nor cheap: hiring people who are "fluent" in more than one culture; partnering with local companies; developing local talent; doing more fieldwork and more cross-disciplinary work in business schools and requiring students to do the same; and taking the time to understand the nature and range of local variations. (See *Tuning in to Cultural Differences*.) Exploring all those approaches in detail is beyond the scope of this article, but I'd like to highlight a few perhaps less obvious points.

The "hard" stuff is easy (believe it or not). Once you accept up front that you know less than you think you do, and that your operating model will have to change significantly in new markets, researching a country's institutional context isn't difficult – in fact, general information is usually available. It can be helpful to work from a road map or a checklist, which will help you recognise and then categorise unfamiliar phenomena. (*Winning in Emerging Markets* provides a tool for spotting institutional voids along with checklists on product, labour, and capital markets in emerging economies.) The institutional context should influence not just your industry analysis but any other strategic tools you typically use: break-even analysis, identification of key corporate resources, and so on.

One big caveat: Developing economies often lack the data sources – credit registries, market research firms, financial analysts – that managers in OECD countries take for granted. This absence creates an institutional void in developing economies that companies must fill through investments of their own. HSBC partnered with a local retailer to create Poland's first credit registry, for example, and Citibank did something similar in India as part of its effort to introduce credit cards there.

The soft stuff is hard. We tend to have very persistent mental models, particularly about emerging markets, that are not rooted in the facts and that get in the way of progress. One of these is the view that all countries will eventually converge on a free-market economy. But considerable evidence suggests that state-managed markets like China's will be with us for the foreseeable future. I've written elsewhere that the Chinese government is the entrepreneur in that economy; to automatically equate

governmental ubiquity with inefficiency, as we often do in the West, is wrong.

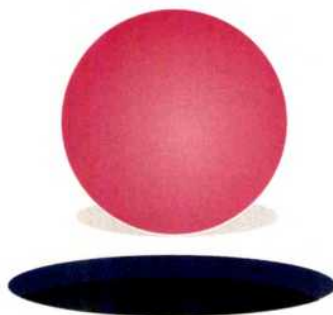
A second persistent mindset is the impulse to rely on simple explanations for complex phenomena. Metro's managers were slow to reconceptualise their operating model in part because they found it easier to address one factor at a time and hope to be done with it. (I see this problem in my classes all the time – sophisticated executives read a case and home in on one particular difficulty, whereas in reality a constellation of intersecting issues must be addressed.) Often the cognitive biases that Kahneman and Tversky first wrote about – such as anchoring and overconfidence – reinforce this tendency.

Experimentation is messy – and essential. It's not enough to identify which of our mental models and biases need to be jettisoned. We must develop new models and frameworks. They will of course be imperfect – but we can't build a better knowledge base without codifying what we learn along the way. And that requires even billion-dollar corporations to think like entrepreneurs – to create hypotheses about what will work, to document and test assumptions, and to experiment in order to learn, cheaply and quickly, what does or doesn't work. Like entrepreneurs, companies shouldn't analyse experimental results to the point of exhaustion but instead develop the capacity to act speedily on results.

General ideas travel; specific dimensions may not. Learning to distinguish between the two is key. (Once again, creating value and motivating the workforce are universally considered essential – but the meaning of "value" and the road to "motivation" differ enormously between cultures.) Metro has continued to define itself in the same way across borders: as a B2B wholesaler that gives small and midsize enterprises access to a diverse range of hard and soft goods. But major adjustments were needed to make that definition work in varying contexts. Regarding payment and delivery, for example, Metro learned to manage not just conventional cash-and-carry operations, but also cash-and-no-carry, carry-and-no-cash, and no-cash-no-carry. (See *What's Universal? What's Context-specific?*)

The future can't be telescoped. We all tend to assume that social and economic transformations occur more quickly than they actually do. Some technological changes have an immediate impact (mobile phones have disseminated rapidly in emerging markets), but they are the exception. Robust research shows that countries take decades, on average, to adopt new technologies invented elsewhere. Institutional change is, if anything, even slower.

Research with my colleague Krishna Palepu suggests, for example, that the transition in Chile from a focus on



bank loans to a focus on issuing securities (a key transition for entrepreneurship) took much longer than anticipated two decades ago. More was required than the creation of new organisations and new rules: Individuals had to adapt their behaviour to the changed context. That didn't happen until foreign demand for information resulted in the emergence of local financial analysts and investment advisers, who first had to develop deep investing expertise. Similarly, in Korea the shift away from overreliance on bank debt and towards equity financing was far slower than proponents expected after the Asian financial crisis of the late 1990s. Analysts needed time to shed their biases, and it was difficult to locate truly independent directors.

For reasons akin to what we found in Chile and Korea, the harmonisation of accounting, corporate governance, and intellectual property standards proceeds at a glacial pace relative to conventional managerial expectations – often because of political objections at the local level.

Generate your own data. To help focus on the facts as they are in a given context, rather than as managers

Instead of relying on conventional market research, managers should conduct their own experiments to learn about the local context

think they should be, companies ought to obtain their own data whenever possible. This is particularly important when Western managers start to operate outside North America and Europe. What some scholars have called WEIRD (Western, educated, industrialised, rich, and democratic) societies may differ from the rest on a number of measures, including beliefs about fairness, a tendency to cooperate, the use of both inductive and moral reasoning, and concepts of self. Therefore, instead of hiring outsiders to do market research and assemble information on how other multinationals have entered a market, managers should conduct their own experiments to learn about the local context and what their company is capable of achieving within it. Some companies are experimenting with crowdsourcing data collection – a practice that's still in its infancy but showing real promise.

Be aware that context matters when eliciting information. In some settings community norms affect behaviour more than individual-level incentives do. Thus a company

interested in water conservation might learn more from studying how villagers use the communal well than from studying household water use. Focus groups may be ineffective in hierarchical societies, so it is important to figure out what "status" looks like in a given location.

Success requires patience. As noted, institutional change can't be rushed. Neither can enterprise-level change. Companies must be willing to invest in immersing their high-potential employees in particular local contexts. The global advertising giant WPP has a fellows programme that places 10 recruits annually with its operating companies around the world to develop leaders with a multidisciplinary, culturally flexible perspective. Each fellow gains exposure and engagement while being mentored by senior WPP executives. Viewed as a ticket to success within the organisation, the fellows programme has resulted in 65 per cent retention (over long time horizons) of these high-potential executives – a significant result in an industry notorious for turnover.

The Universal Importance of Contextual Intelligence

Understanding the limits of our knowledge, which is at the heart of contextual intelligence, is a very basic component of human comprehension. Yet it's also a profoundly difficult, complicated process that has vexed philosophers from Plato to Isaiah Berlin, who distinguished between *knowing the facts* and *making a judgment* in a widely read 1996 essay.

I believe that contextual intelligence is systematically undervalued in dozens of situations. I've focused here on corporations planning to enter new markets. I could as easily have written about giant state-owned enterprises, entrepreneurs, and nonprofits that are tackling even bigger problems – such as how to expand the formal economy to include the four billion people who currently make a living in the informal economy. At best, this excluded population engages in rudimentary commerce mediated by personal relationships, which limits the possibility of expanding its networks. Engaging effectively with this population will take massive doses of contextual intelligence. We need to understand so many things better than we currently do: How do they prioritise spending, given their extremely limited resources? What forms of communication will they respond to? How can they accumulate capital in the absence of collateral? The answers to those questions will differ from Mumbai to Nairobi and from Nairobi to Santiago. ♦

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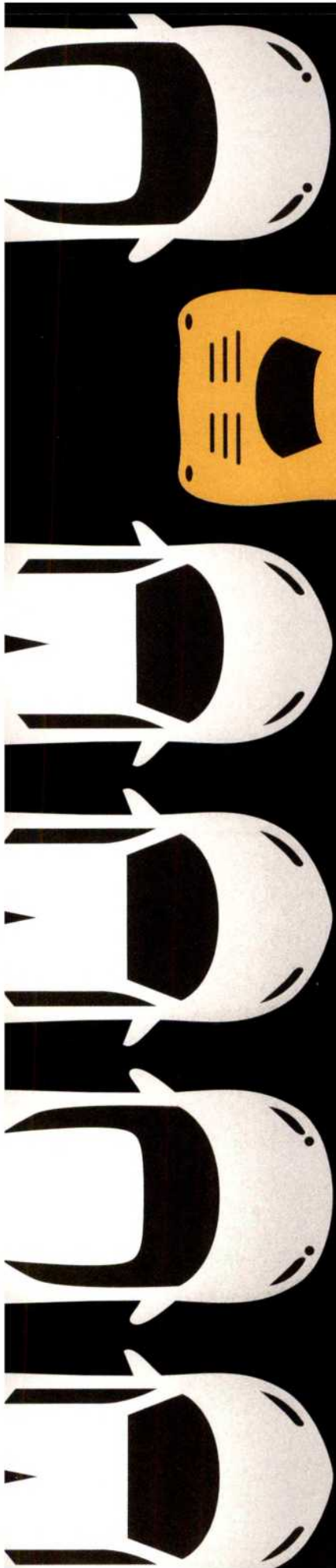
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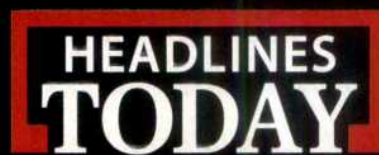
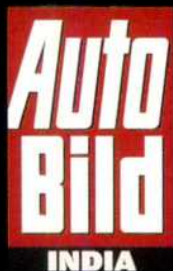
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Shifting Focus to Outcomes

Like IT outsourcing firms, medical technology companies are now increasingly being forced to transition to outcome-based revenue models as health-care reimbursements come under increased scrutiny. By CHITRA NARAYANAN



A Philips IntelliSpace Consultative Critical Care unit: Through frugal innovation, medical technology companies are working on bridging the health-care access gap

Frugal innovation is the buzzword in the R&D centres of medical technology companies that are focused on emerging economies like India. The other two catchphrases are open innovation and outcome-based pricing. "Health care here [in India] is all about access and reach," points out Srinivas Prasad, CEO of Philips Innovation Campus, Bangalore.

To cut time and cost for patients, Philips created e-ICU or virtual ICU, which links intensive care units in remote hospitals to a big specialist ICU in a metro with real-time video

image transfers and minute by minute consultations. A step further was its IntelliSpace Consultative Critical Care solution, which hooked up clinical care facilities in Tier-III or Tier-IV towns to a central command centre, transforming them into intensive care settings. "The command centre acts as the hub and remote care units act as spokes," explains Prasad. Clinical data from these spokes gets displayed on a dashboard at the command centre, where specialists view and monitor the patient's key parameters continuously and prescribe treatment.

If open innovation added velocity

to product development as end users, students and even companies chipped in with ideas, then frugal innovation kept costs minimum. But Philips is not the only health-care company swearing by frugal innovation. Companies like Xerox and GE are all working in that direction in their R&D labs in India. Dr Manish Gupta, Director, Xerox Research Centre, India, and Vice President Xerox Corporation, describes how one such frugal innovation-driven product the company is developing is a thermal camera that uses temperature measurement analysis for breast cancer screening. The idea is to use



low-cost mobile equipment to reach out to larger geographical areas and rural populations with limited access to hospitals.

But the true disruption is in the pricing model being followed by these companies for some of their products. "More and more hospitals want to pay as they use. They don't want to pay for the product, but only the usage of the product," points out Prasad. One step beyond pay-per-use is the outcome-based pricing model, where the remuneration is based on performance. This is not a new concept. IT outsourcing and aviation industries have successfully transitioned to this model, with aircraft engines being sold on the basis of air miles flown rather than product cost, and software evolving from a time and material pricing model to a usage and outcome-based model.

Now it's the turn of health-care companies to try out new pricing models. Risk-sharing schemes between drug makers and insurers have already been tried out. For its multiple sclerosis drug Rebif, EMD Serono, for instance, had a risk-sharing agreement whereby additional rebates would be given to insurer Cigna in case patients on Rebif had more than expected hospitalisations.

According to Solomon Darwin, Executive Director at Garwood Center for Corporate Innovation, Haas School of Business, University of California Berkeley, large MNCs like GE, DuPont, Johnson & Johnson (J&J) are seriously looking at outcome-based revenue models.

Frugal solutions from emerging economies is one trigger. The second is because of recent changes in the US health-care ecosystem and a slew of litigation on medical products. In a paper titled *Three Rules in Medical Technology*, Glenn Snyder, Faruk Abdullah and Michael Lefferts write: "The Affordable Care Act has catalysed changes in how medical technology customers define value and which stakeholders are involved in

decision making."

Darwin says the Garwood Center was founded because most large companies like GE, J&J, DuPont realised that with the marketplace getting more complex, they needed an-



"It may be pennies, but billions of pennies is a lot of money, so there is economies of scale"

Solomon Darwin,
Executive Director, Garwood Center for
Corporate Innovation, Haas School of
Business, University of California Berkeley

other cycle of innovation to survive. "Twice a year we get the large corporations' chief innovation officers into one place and talk about each other's struggles, what we can learn from each other, what lessons can be drawn from other industries and what model will work," he says.

One of the biggest discussions at these meets, Darwin says, revolves around the pay-per-use model. "The days when you make, buy and sell and ship and make a profit is over. So are the days of charging for service or maintenance." Increasingly, medical technology companies also realise the

need to talk directly to customers.

Darwin cites the example of J&J. "When there is a hip replacement procedure, usually the customer for J&J is the hospital or the surgeon. Now J&J is saying the patient has to be the customer who will pay only for good outcomes.

In an environment where there is increasing reimbursement scrutiny on medical bills, if J&J doesn't cannibalise its own business model, it's going to die, says Darwin.

Of course, outcome-based payment models can squeeze revenues unless there is scale. How do you monetise a resource like IBM Watson, the supercomputer that processes 200 million records per second, and can be a valuable ally for health-care professionals?

"A challenge we have set for our students this year is how does IBM make money from this asset in the cloud that has in its corpus all knowledge that no surgeon can compete against? It understands natural language – it is omnipotent, omniscient and omnipresent," says Darwin. The solution, according to him, lies in collaborating with a large hospital like Apollo. "They have shared patient data with us, which we have fed into the brain of IBM Watson." Watson mines the patient data and medical history and juxtaposes it with information already available with it (treatment guidelines, clinical studies, doctors' and nurses' notes) and comes up with a potential diagnosis.

"The value for the poor man in the village is he does not have to take a train from his village to Hyderabad, wasting time, money and resources," says Darwin. For Apollo, the value proposition is that it reaches out to more people. For IBM, the value is that the asset they created is being used by millions around the world. "It may be pennies, but billions of pennies is a lot of money, so there is economies of scale," he adds. ♦

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The new connect: (From left) Kris Lakshmikanth of Headhunters India; Elango R. of Mphasis; Business Today's Shamni Pande; Bharti AXA General Insurance's Shilpa Vaid; Flipkart's Gautam Ghosh; and Vijayaraghavan of Stempeutics Research

HANDLING WORKPLACE DYNAMICS

Top HR executives in Bangalore discuss social media at workplace and whether working from home is a good option. By VENKATESHA BABU



Bangalore's notorious traffic jams didn't prove to be a dampener when some of the city's sharpest, most opinionated and experienced HR practitioners came together for the *Business Today* Knowledge Forum on Human Resources recently. Held at Vivanta by Taj, Whitefield, the event, which witnessed two lively panel discussions, was moderated by Shamni Pande, Senior Editor at *BT*.

The first set of panellists, comprising Elango R., Chief HR Officer (CHRO) and head of Emerging Geographies, Mphasis; Gautam Ghosh, Director, Talent Branding, Flipkart; Kris Lakshmikanth, Founder CEO and Managing Director, Headhunters India; Shilpa Vaid, Chief HR and Corporate Responsibility Officer, Bharti AXA General Insurance; and Vijayaraghavan, General Manager, HR and Shared Services, Stempeutics Research, discussed *How social media is changing the workplace*.

Headhunters' Lakshmikanth pointed out how initially technology companies restricted employee access to external email services providers like Google and Yahoo! "However, this is the millennial generation and it is accustomed to spending time on social media platforms like Facebook, Twitter, etc. So, companies have been forced to open up and allow at least some degree of freedom, otherwise talent flees."

Flipkart's Ghosh made a stark point about access restrictions becoming in-



For videos of the discussions, log on to
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creasingly irrelevant. Pointing out that 60 per cent of his company's sales came from mobile, he said: "Desktop is no longer the only access point. Social media is so ubiquitous that everyone is feeling its impact... It has equalised the power between individuals and institutions. For content to be interesting, it has to be edgy, and one cannot always play safe on social media as that would be boring."

Elango of Mphasis felt that social media was also beneficial to organisations as it eliminated the middleman and reduced the cost of reaching out to individuals. "When we are looking to hire, I don't have to take out full-page advertisements in publications. Earlier, we used to hire 60 per cent of our people through consultants, now it is 20 per cent. Our cost of hiring has gone down by 46 per cent as I can track talent brand index on a real-time basis. We do social media audits when we hire at senior levels and because of social media I have more data to analyse whether we are hiring a loose cannon. Also, potential employees are more influenced by what is being said about the company on social media platforms by their peers."

Eighty per cent of the information that potential hires get about an organisation is from informal sources, with social media being the highest, averred Vaid of Bharti AXA. If not handled well, Vaid felt that social media could also have a negative impact. Companies need to learn and practice best practices, she added.



Shilpa Vaid, Bharti AXA
General Insurance

"Eighty per cent of the information that potential hires get about an organisation is from informal sources like social media"

Elango R., Mphasis

"We do social media audits when we hire at senior levels and because of social media I have more data to analyse whether we are hiring a loose cannon"



Vijayaraghavan, whose company Stempeutics works at the cutting edge of stem cell research, said that given the kind of personnel his company recruits – mostly highly accomplished doctors, scientists and researchers – having social media access and use was a hygiene issue.

A representative of Happiest Minds Technologies in the audience asked the panel whether social media was 'the'



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BT EVENT HR Knowledge Forum



Homebound: (From left) Portea Medical's Meena Ganesh; Intel South Asia's Preethi Madappa; Shamni Pande; Jagjit Singh of PwC India; and Jessie Paul of Paul Writer

core determinant of workplace dynamics today. The panel felt that while it was one of the important determinants, it was not necessarily the only one.

The second panel had an ever-popular topic for discussion: *Whether working from home increased productivity*. The panellists included Jagjit Singh, Human Capital Leader, PwC India; Jessie Paul, CEO, Paul Writer; Preethi Madappa, Director, HR, Intel South Asia; and Meena Ganesh, Co-founder and CEO, Portea Medical.

Paul of Paul Writer, a marketing advisory services firm, began her argument by strongly disagreeing with the topic. "On average, Indian homes have more people. There is no structured environment at home. While not commuting is a major plus in the India context, unless infrastruc-

ture is there, working from home doesn't necessarily improve productivity."

PwC's Singh, on the other hand, said that his company had travelled a long way in enabling people who wanted to work from home to do so. "It is all role-based. If it is a client-facing role then obviously there are some constraints but on the whole, where it is feasible and possible, we provide that opportunity. This has worked out well for us."

Intel, a core technology company where innovation is a part of life, felt that the ability to interact and share ideas was best done when people worked together and not remotely, said Madappa. "Efficiency, energy and buzz are created when people come to a workplace. At the same time, we are sensitive to people needs and we ensure that (depending on needs) they are addressed."

Having worked at large companies and also having hand-held numerous start-ups, serial entrepreneur Ganesh of Portea Medical, a provider of in-home health-care services, brought a fresh perspective to the topic. "In start-ups, it is crucial to have people together. But in unique cases, like our previous start-up Tutorvista, the model was such that people worked remotely from home. So, it depends on a case to case basis."

Unlike conventional wisdom, Madappa felt that the newer, younger workforce, while being extremely technology savvy, realised that their growth is better served by being present at a workplace. Paul felt presence at workplace ensures culture transmission, while putting structured mechanisms in place could monitor productivity.

SRM University was the presenting sponsor of the conclave. ♦



Gautam Ghosh,
Flipkart

"For content to be interesting, it has to be edgy and one cannot always play safe on social media as that would be boring"

Preethi Madappa,
Intel South Asia
"Efficiency, energy and buzz are created when people come to a workplace. At the same time, we are sensitive to people needs and ensure they are addressed"



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Here is to the true achievers. The leaders, the trailblazers, the ones who make a difference. To you who have been doing great things all throughout your life: guiding people, shouldering responsibilities, establishing the vision for the future and setting the strategy to get there. Day after day, you have fixed your eyes on perfection and made everything speed towards it. This is what true leaders do. Continuously striving for perfection, you've brought success to your enterprise and prosperity to your people.

They say we are what we repeatedly do. Excellence, then, is not an act, but a habit. That is why your pursuit of excellence shall never end, be it your career or your home life, managing hundreds of employees or bringing up your grandchildren. As a leader you have been striving for perfection, taking care of numerous people and responsibilities. Now it's time to transfer this endeavour to your personal life. You deserve a life saturated with the genuine spirit of care, and Antara Senior Living offers just that.

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“ It's not a location, it's a destination, a Renaissance. Life at Antara is curated around the desires of every resident. ”

Tara Singh Vachani,
CEO, Antara Senior Living

significance and beauty. At Antara, residents can mingle with like-minded people, enjoy an unparalleled, service-oriented experience combined with community activities, learning, philanthropy, spiritual explorations and the peace of mind of hassle-free living.

Let us look at how a typical day can pass for you at Antara. The morning view from your window is of charming hills and lush greenery. You don't give the messy bed and undone dishes a second glance as you leave your spacious apartment for a robust pre-breakfast yoga class with your personal fitness instructor, followed by freshly prepared breakfast at the restaurant in the clubhouse. You pass an inviting heated indoor pool on the way there and promise yourself a refreshing dip afterwards. A lush putting green sprawls in the distance, and you know you'll find your friends there. The day is spent at the clubhouse, playing cards and unwinding after the active morning. After a long, lazy lunch with your friends, you return to your apartment to find it waiting for you in perfect condition, clean and welcoming.

No doubt that the second part of the day will be as exciting and intense as your morning. Want to pamper the senses, revitalize the body and open the eyes to fresh thoughts? Experience holistic spa and get customized care of a personal wellness counselor at the health and wellness space. Considering a healthy lifestyle? Then personalized meal planning with illustrious chefs and dieticians is the answer. What's more, a 50-seater private theatre for art lovers and a well-stocked library for aesthetes are set to involve everyone in delicate pleasures of life. In the evening, have a stroll through the leafy conservatory in a soothing silence

of the Doon valley surrounded by the most sacred and mysterious mountain range.

The design philosophy centres on the principle of specific and customized design interventions, so that residents can lead an enjoyable and enriching lifestyle. Be it the landscaping, the carefully customized lighting or universal step-free access, the community is replete with thoughtful details which increase the quality of life. A trained, service-oriented workforce of over 200 hospitality staff will handle housekeeping, grocery shopping, repairs, maintenance, security and more, so our residents can live to their fullest without the usual day-to-day bothers of life.

Recognizing that each and every resident has individual likes and dislikes, needs and demands – the Antara experience is a precisely tailored one. Residents have innumerable choices, from over 200 beautiful apartments at 1400 - 6000 square feet ranging in price from INR 1.50 cr – 6 cr. The monthly service charges are in the range of INR 35,000 – 1,20,000, depending upon the size of the apartment.

Some say perfection is not attainable. Antara believes in continuously chasing perfection, for that is the road to excellence.

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More than 80 executives had a fun day at work at BT's golf event in Mumbai recently. By CLIFFORD ALVARES



Individual winner: AMI India Logistics' Dinesh Lal won in the 19 to 24 Handicap category

Laughter and camaraderie filled the atmosphere at Mumbai's Willingdon Sports Club which played host to the *Business Today* Lloyd Pro-Am of Champions 2015 on February 21. Amidst the fresh air and rolling greens, against the backdrop of an occasional sky-rise, a challenging round of golf awaited more than 80 chieftains of India Inc. The participants had to pull out all their golfing experience to stay at the top of their game.

"It was a highly absorbing game of golf with lovely weather and a fantastic atmosphere, and it required a lot of concentration," said Leo Puri, CEO, UTI Mutual Fund, who was one of the first golfers to tee off.

The play proved to be very demanding towards the

middle of the day what with the temperatures going up. "The pin positions were tougher, and it was a very, very competitive game," points out D. Bhattacharya, Business Head, Corporate Strategy, Aditya Birla Group.

The 18-hole course saw some exciting long putts and many birdies, but a hole-in-one, of course, proved elusive. Nevertheless, if the event exhibited anything, it was the participants' competitive spirit and positive attitude, irrespective of winning or losing.

Dinesh Lal, Director of AMI India Logistics, who won the 19 to 24 Handicap category with 34 points, philosophically reminisced about how golf instills a spirit of openness and responsibility. "Golf has everything one needs in life: green grass and fresh air. But,



It's all about meeting and greeting executives:
Accenture's Jayashankar Jayaraman



The runners-up: (From left) iopt4more financial services' Sachin Khanna, Vijay Chauhan of Parle Products, Surjit Duggal of SSD & Associates - Business Consultants



Individual winner: Rahul Divan (right) of Rahul Gautam Divan & Associates receiving his prize in the 0 to 10 Handicap group from Nipun Singhal of Lloyd Electric & Engineering



The winning team: Anuj Thapar (middle) of Aspher Foods, who also won the individual 11 to 18 Handicap category, and Mayank Ruia of Phoenix Mills (right) pose with Nipun Singhal

at the end, if you don't make it, you can't blame anybody but yourself. If you get it right, it's like no other thrill."

And more than the competition, it was the camaraderie that was clearly visible on the field. Jayashankar Jayaraman, Managing Director of APAC Alliances, Accenture, was excited at meeting so many executives away from the boardroom. "I have seen so many people in boardrooms; unlike that in golf, however, you get to know how people are on the field. It helps [in] knowing a person so much better."

Dr Shailesh Ayyangar, Managing Director, India, Sanofi, compared golfing to tough situations in business. "As in business, when things get tough, you have to keep your calm."

Meanwhile, back to the game. The victorious team with 102 points included Anuj Thapar, Madhav Nair, Neville Mehta and Mayank Ruia. Thapar had an excellent outing with exquisite long putts and wonderful birdies, topping the 11 to 18 Handicap group with 42 points. Rahul Divan came out on top in the 0 to 10 Handicap group with 34 points.

So competitive was the game that there was a tie for the runners-up team spot, which saw the 'back nine' score system coming into play. With 95 points, the eventual runners-up team included Vijay Chauhan, Sachin Khanna, S.V. Patkar and Surjit Duggal.

Chauhan expressed his delight at being part of the event. "It's always good to come up against other businessmen. Most of the participants were playing to win. There were many good golfers."

Lloyd Electric & Engineering, India's eminent consumer durables company, was the principal sponsor of the event, which was powered by Raymond.

"It's good to partner with *Business Today*. Next year [2016], we will expand to seven cities and then to 10 a year later [2017]. We will also change the format and have a tee-off in the afternoon," declared Nipun Singhal, Director, Lloyd Electric & Engineering.

Ballantine's was the event's beverage partner, 4moles.com the digital partner, NEO Sports the TV partner, Creatigies took care of marketing, and the media partners included *Golf Digest* and *Mail Today*. ♦

Great overLand Adventure

FROM GERMANY TO INDIA THE WORLD FREEZES OVER

In our drive from Stuttgart, Germany to Pune, India we cross some of the most hostile regions of the world in winter including some of the world's highest mountain passes

Not only was it a challenge to drive from Germany to India but that we did it in the middle of winters doubled the degree of difficulty as the route took us through many regions covered with snow and we also had to cross many high mountain passes

While the first part of our epic drive was spectacular as we passed through western Europe and western Russia, there was a challenge for either the men or the machine in the Mercedes-Benz GLA 200 CDI. However as we went east in Russia and approached its Asian part we ran into a sea of white. From then on, the terrain got tougher and challenging and the roads were often white instead of black. The first challenge came when we crossed the Ural Mountains towards the Siberian wilderness, passing through picture postcard scenery with white as far as the eyes could see. However the

roads were good and the GLA was not perturbed by ice and we had a good drive through Russia and then turned south to Kazakhstan. Even this central Asian country was under snow for the most part but it is a flat country with huge grasslands and arrow straight roads and so did not pose too much of a problem. Our first real challenge came while crossing the Kyrgyz Republic as we were told that the main highway to cross the country to the Chinese border was under construction and traffic jams could cost us more than a day. The other option that we chose was to take a 300km detour on a dirt track through the mountains. The

scenery was much like Ladakh and the track was mud, gravel and stone at times but not a kilometre of it was paved. It was not a problem and we made good time and arrived at the Kyrgyz border town of Naryn at night. But the real challenges lay ahead as we crossed into the Xinjiang Uyghur Autonomous Region of China and passed a spur of the Tien Shan mountain range – all covered in snow and ice. But you can read about it all in the next issue of the magazine and also watch our journey on Headlines Today at 1:30pm on the 7th of March.

Yogendra Pratap
Twitter: @YogenPratap



The road (above) was so slippery that when our photographers got off to take pictures, one slipped and fell after his first step while the other fell on his third step. The icy conditions in Kazakhstan (left) meant that we had to use special additives everytime we filled up the cars. Russians seem to love their military wares. Seen here is an old tank which was parked up on a stone plinth (top right). From beautiful tarmac to icy roads and dusty gravel tracks, the GLA (right) went through it all



EXCERPTS FROM AUTO BILD INDIA



ILLUSTRATION BY RAJ VERMA

WEAR YOUR ATTITUDE

Wearable gadgets are the next big thing in the tech world, driving innovation. Here's why you should wear one as well. **By NIDHI SINGAL**

Move beyond smartphones and tablets. Smartwatches and smartbands are fast becoming the accessory to have. Wear the geek on your sleeves and you will realise that fashion is just as important as function. It's not a surprise, then, that wearable technology is driving innovation. From technology giants, such as Samsung and Apple, to start-ups, everyone is betting big on wear gadgets. The fancy prototypes that looked like a dream till recently, have not only become a reality, but have evolved from being just stand-alone gadgets with limited functionality to extensions to our tech-driven world.

According to a report from Canalys, over 1.6 million wearable bands were shipped globally during the second half of 2013. The forecast for 2014 was pegged at over 17 million. In 2015, the number is expected to exceed 43.2 million units.

The rush for wearable tech is not

without reason. The growing app ecosystem around wearables, their compatibility with multiple gadgets and accessories, and, above all, the pricing, are contributing towards making them a must for the aspirational Indian's tech wardrobe.

Now you have to just strap your wearable to your wrist to see the notifications, emails, messages, or Facebook and Twitter mentions. In fact, wearable gadgets are capable of doing a lot more than you can imagine – from giving directions to reach your destination and answering calls, you can also monitor your heartbeat, log your daily footsteps and track your sleeping pattern.

Smartwatches and smartbands come with special apps that either work on iOS or Android, and some are even compatible with both operating systems. To explore the device further, installing the app is a must.

Motorola's Moto 360, for instance, is an aesthetically-designed smartwatch that pairs with almost



Moto 360: A smartwatch that pairs with almost any Android smartphone



Lechal GPS Shoes: Gives directions and alerts to obstacles using Bluetooth

any Android smartphone using the Moto Connect App. Wearing one is fun. My tech-savvy friends are awed by this smartwatch, while the technically-challenged loved its design. And, it is not an exception. There are a host of smartwatches available from the stables of Samsung, Sony, Pebble and LG, among others, that are equally appealing.

Fitness bands, however, are more affordable compared to smartwatches. At present smartbands cost ₹2,500 onwards. The Xiaomi bracelet might be available in India for ₹1,500. Lesser known brands of smartwatches are available for ₹5,000 to ₹12,000, while Motorola's Moto 360 is priced at ₹18,499.

While Sony's Smart Band SWR10 comes with a compatible app that tracks daily activities, Indian start-up GOQii differentiates its products from other fitness bands by offering a fitness coach to go with. It tracks activity and sleep and keeps you motivated to eat healthy and be active. Samsung, too, has a Gear Fit band that looks elegant, just like a smartwatch. Other than fitness and notification, there are bands that 'think' about your safety. The spotNSave Wristband, for instance, lets you send an SOS to your dear ones if you are in trouble.

Pushing innovation for smartwatches further, Google has announced Android Wear, an operating system for smartwatches. It pairs with Android phones and by saying 'Ok Google' (using a voice-recognition software), the watch starts talking to you. Apple, which redefined smartphones, too, has ventured into this segment with Apple Watch. The device incorporates fitness-tracking and health-oriented features, and claims to be a lifestyle product. "By creating a new user interface tailored to its tiny display, Apple has produced a smartwatch that consumers will want to wear. The sleek software, variety of designs and reasonable price make for a compelling product," says Canalys analyst Daniel Matte.



Microsoft HoloLens: Uses virtual reality to transform images and objects to 3D



Fin Ring: An innovative gesture-based ring control for devices



Sony SmartEyeglass Attach: Brings augmented reality for fitness and sports activities



Apple Watch: Incorporates fitness-tracking and health-oriented features

While wristbands and smartwatches dominate the wearable tech industry today, technology is also being etched into shoes, rings, jewellery, clothes and eye gears. For example, Lechal GPS Shoes is a pair of Bluetooth-connected shoes that use haptic feedback technology to notify users about the direction they must take. Fin Ring, on the other hand, is an innovative gesture-based ring control for devices. Blomor iPod

Sweatshirt is yet another innovation that come with integrated speakers and a microphone attached to the hood that allows you to listen to your favourite music and making calls. It even has a broad front pocket with a multifunction button and a universal jack that plugs into any earphone-compatible device.

Though Google has stopped selling its Google Glass, which has been the epitome of wearable tech, Google Glass 2 is already in the works. While Sony is experimenting with its SmartEyeglass Attach, Microsoft has revealed its plans on a head-mounted gear with transparent glasses, HoloLens. Dash is yet another product that is creating interest among consumers. It is a wireless headphone with a built in MP3 player, microphone, Bluetooth headset, fitness tracker and heart rate monitor from Kickstarter. Intel's Curie, a low-powered module around which wearables gadgets can be designed, is another innovation grabbing eyeballs. Japanese eyewear company JINS has showcased a unique eyeglass with three-point electrodes looking into the eye, collecting data and transmitting it to the wearer's smartphone.

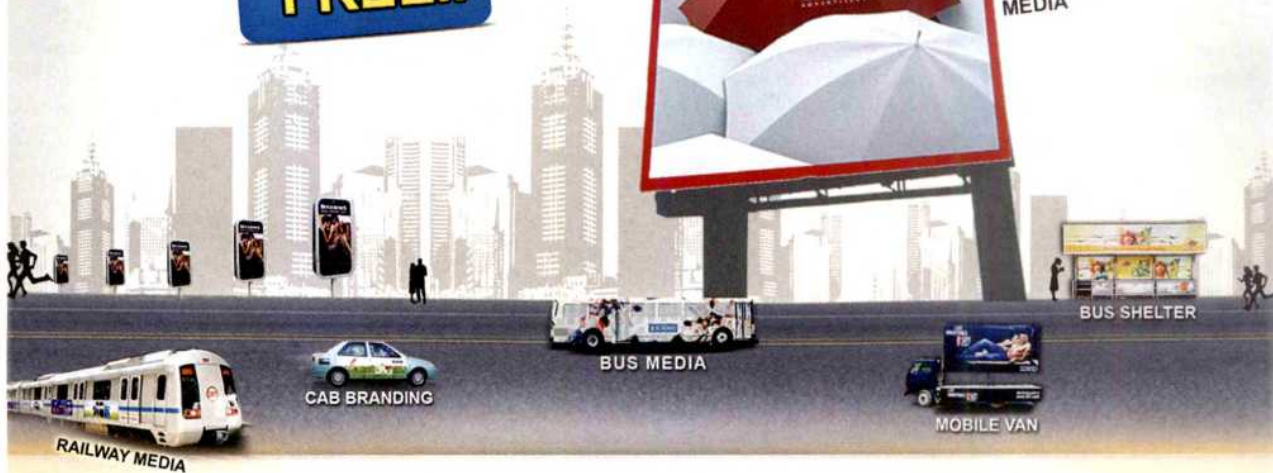
"There are already some interesting developments at the prototype stage that could pave the way for consumer wearables to blend seamlessly into their surroundings. Smart contact lenses are being developed. Then, there is smart jewellery. There are a dozen crowd-funded projects competing right now in this area, with sensors built into jewellery for communication and emergency alarms. Obtrusive wearables, such as smart glasses, are already in the market and are likely to develop new designs that disguise their technological components completely," says Annette Zimmermann, Research Director at Gartner.

There's plenty happening in the wearable space and you might as well upgrade your tech wardrobe to announce your arrival as both fashionable and mainstream. ♦



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BANTAMWEIGHT CHAMPION

Lenovo's new flagship ultrabook comes with a breakthrough design and impossibly-thin dimensions. The convertible-hybrid laptop is also a user's delight. **By NIDHI SINGAL**

Since the beginning, Intel's ultrabooks have failed to stir up the market. While manufacturers were still toying around with the idea of lightweight and slim-form factor, Lenovo can claim to have mastered it with its Yoga range. And, Lenovo Yoga 3 Pro could well be the benchmark in this category.

This 13-inch slim convertible is a head turner. To achieve a super slim design, Lenovo has used 800 steel and aluminium pieces to design this machine. It has even developed a unique hinge technology to keep the Yoga 3 Pro thin and light at 12.8 mm and 1.19 kg, respectively. The 360-degree foldable hinge converts this laptop into a tablet with ease. Opening the lid to 270 degrees can turn it into the desktop-standing mode. The world's thinnest laptop has got a 13.3-inch touch display with 3200x1800 resolution. Everything appears crisp and bright on the screen. While keeping the design elegant, yet simple, Lenovo has added a rubberised padding around the keyboard. The well spaced backlit keyboard minus the number pad is superb to type on. The touchpad, too, works well. The power key along with dedicated volume controls have been added to the right edge of the machine.

The machine runs Windows 8.1 and works on Intel Processor 5Y70. Paired

with 8 GB RAM, it has got only 256 GB of onboard storage. This machine powers up in less than 10 seconds and quickly launches apps and programmes. Switching between multiple programmes was smooth. So was browsing the web and watching full HD videos. The touch response is superb, whether you use it in the laptop mode, the standing mode or as a tablet. When used in the tablet mode, the keypad facing downwards is automatically locked.

In an effort to attain the slim form factor, Lenovo has not compromised on the connectivity ports. It has two USB 3.0 ports (one doubles as a charging port), one USB 2.0, an SD card reader and a micro HDMI port. Lenovo has ditched heavy charging adapters in favour of a proprietary USB charging cable that can even be used to charge a smartphone attached to this ultrabook.

Lenovo has added Harmony Settings software that optimises settings according to the app that you use. This setting can be further customised for your favourite apps. It also shows the mode the device is being used for the most. Other than the regular Microsoft apps, it comes with Amazon, Kindle Yoga Chef, eBay and Dragon Assist, among others. ♦

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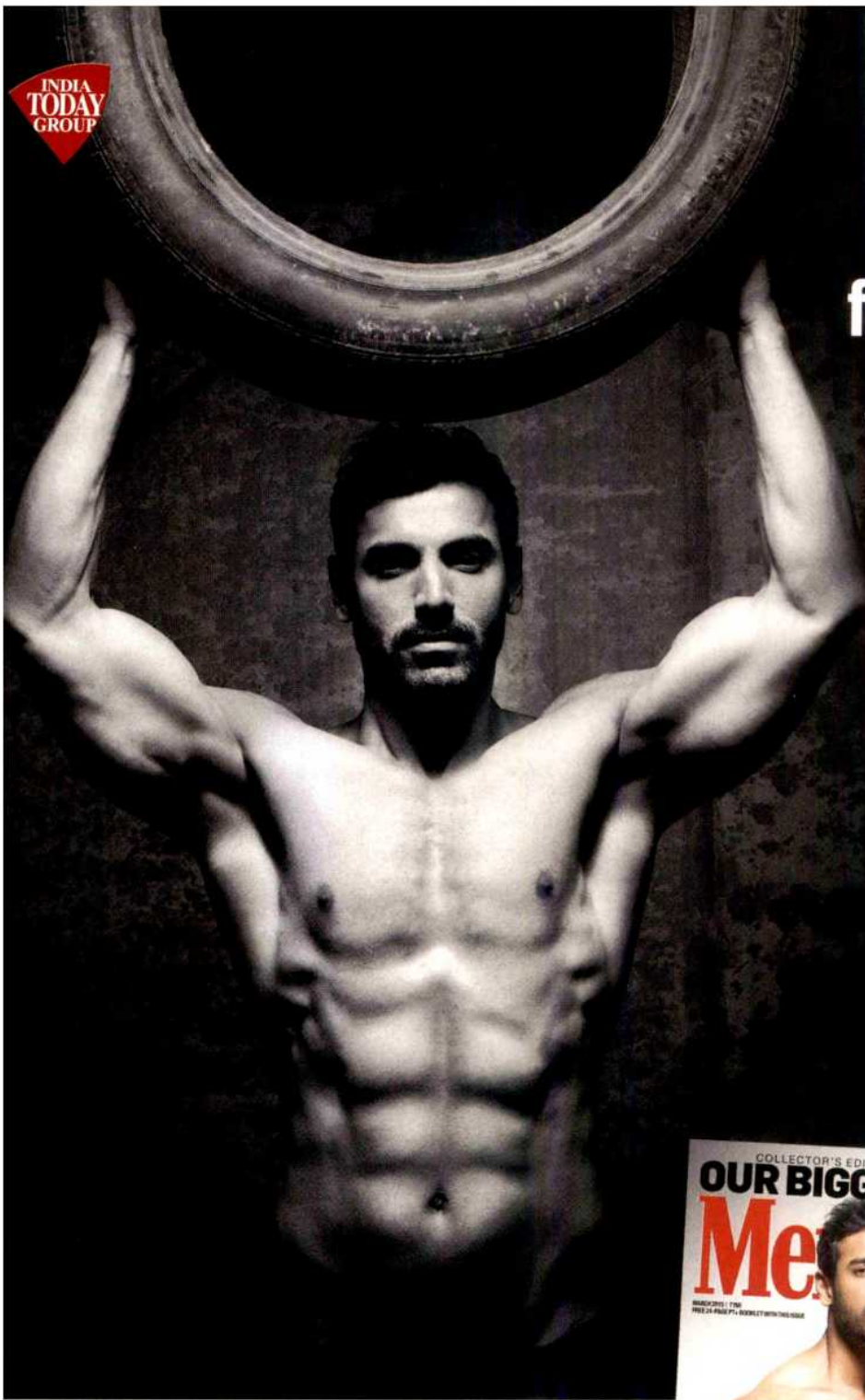
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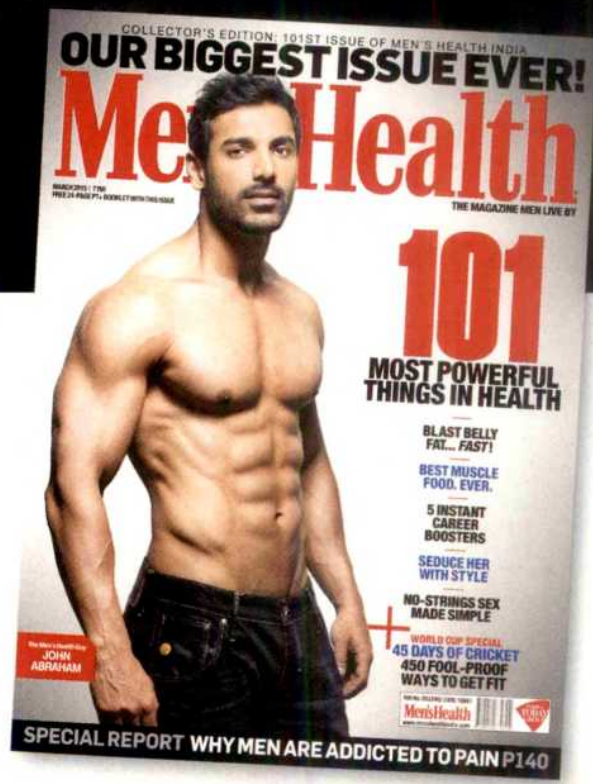


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PICKING THE WINNERS

Indian stock markets gained traction in 2013. The hope of formation of a stable government at the Centre saw the beginning of a rally that is now being compared with the bull run of 2003-08. Just before that, negativity was at its peak with sharp depreciation of the rupee and wide government deficits. Stock market valuations reflected this.

But then, expectations that things will change became the central theme. In this scenario, a large number of institutions and individuals did exceedingly well, not only by providing better risk-adjusted returns to investors but also by ensuring their overall financial well-being.

To recognise and honour them, we bring the second edition of the Money Today FPCIL Awards 2013-14. The awards have been jointly instituted by Money Today, the personal finance magazine of the India Today Group, and the Financial Planning Corporation (India) Pvt Ltd (FPCIL), established by the Financial Planning Standards Board India. The awards have been powered by Certified Financial Planner (CFP) Certification, a global mark of Excellence in Financial Planning. DHC, a leading accounting and consulting firm, is the knowledge partner.

"The purpose of these awards is to recognise entities and individuals who have provided best products and services in their respective fields to the highest satisfaction to their consumers," Sarbajeet Sen, managing editor, Money Today, said at the award ceremony.

"We at Money Today are committed to arm our readers with smart and efficient tools of money management. Along with FPCIL, which lives and breathes financial planning, we together can understand the pulse of the market and requirements of consumers and are ideally placed to give away these awards," he said.

Ranjeet Mudholkar, CEO and vice chairman, FPSB India, said the awards are broad-based and have a two-pronged approach.

On the one hand they cover the financial services sector as regard to design of products, governance and intermediation involved in delivery while on the other hand they capture the outcome, that is, the financial well-being of consumers who use these products and achieve their objectives.

Distinguished Jury

The awards followed the highest standards of integrity, research and fair analysis. They have the endorsement of seven eminent jury members who have deliberated, discussed and arrived at the winners after rigorous examination. The members are experts in areas of banking, law, financial services and accountancy.

Together they have provided valuable inputs for selecting winners. "We have one of the finest juries for selecting the winners," said Sen.

The chairman of the jury, Justice (Retd) Shri BN Srikrishna, is an eminent jurist and a former judge of the Supreme Court. Till recently, he was the Chairman of the Financial Sector Legislative Reforms Commission (FSLRC), established by the finance ministry in March 2011 to simplify financial sector and subordinate legislation. Amitabh Chaturvedi, a jury member, is the managing director at Essel Finance. He has over 22 years of experience in banking, asset management, insurance, broking and distribution. Gautam Chikermane, another member, is an eminent journalist, columnist and author as well as Jefferson Fellow. He has over the years served as editor at many

esteemed publications. Another jury panellist is Nareish Takkar, managing director and CEO of ICRA Ltd. He has led ICRA's teams for developing analytical criteria for various sectors, including banking, project finance and structured finance. Jury panelist Ranjeet S Mudholkar is serving as vice chairman and CEO of the Financial Planning Standards Board India (FPSB).





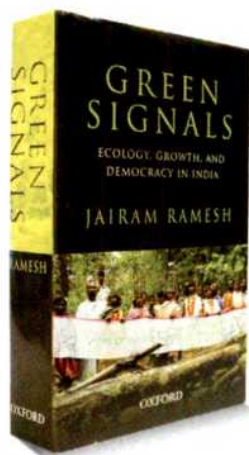
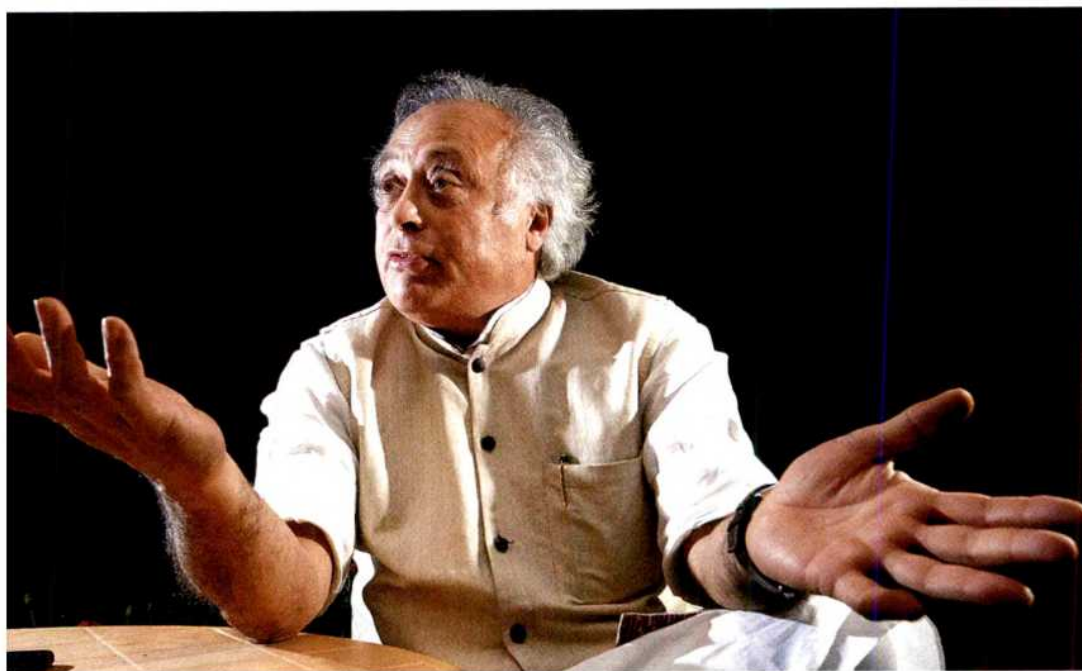
India). Sandeep Parekh, a member, is the founder of Finsec Law Advisors, a financial sector law firm based in Mumbai. He has also served as executive director at the Securities and Exchange Board of India, where he headed legal affairs and enforcement departments. Jury member Shailesh Haribhakti is a Fellow Chartered Accountant and Chairman at DH Consultants Pvt Ltd, a leading accounting and consulting firm with global ambition and outlook.

The chief guest of the award ceremony was M Damodaran, who served as the chairman of Sebi, India's financial markets regulator, for three years up to February 2008. "At Sebi, he brought about major improvements in regulatory framework of capital markets," said Sen. Damodaran was also chairman of Unit Trust of India, then India's largest mutual fund, from July 2001 to December 2004. He belongs to the Indian Administrative Service and served as joint secretary of the banking division of the finance ministry for five years. Damodaran, in his address, said the financial sector has done a lot of good and some harm. Excessive financialisation, he said, has contributed to lot of negativity. He said the solution to all problems that exist in the financial sector is to create a body of informed investors who know what they are doing with their money. There are many who don't understand asset classes or risks associated with them and blindly follow advice of others. Kartik Radia, deputy national leader, Risk Advisory, and partner at DHC, said the entire process has been holistic. He said they have used an internationally recognised methodology called CAPA, a 360-degree evaluation which is fair and delves into detailed aspects of a company's functioning to make sure the process is not affected by any prejudice and is scientific and methodical.

Sr No.	Award Category	Winners
1	Public Sector Bank of the Year	State Bank of India
2	Private Sector Bank of the Year	Yes Bank
3	Asset Management House of the Year	Birla Sunlife Asset Management Co
4	Equity Asset Management House of the Year	Franklin Templeton Asset Management (India) Ltd
5	Debt Asset Management House of the Year	ICICI Prudential Asset Management Co Ltd
6	Life Insurance Provider of the Year	Life Insurance Corporation of India
7	General Insurance Provider of the Year	Bajaj Allianz General Insurance Co Ltd
8	Health Insurance Provider Of the Year	Apollo Munich Health Insurance Co Ltd
9	Stock Broker of the Year	ICICI Securities Ltd
10	Institutional Financial Planner of the Year	ICICI Securities Ltd
11	Institutional Financial Planner of the Year (runner up)	International Money Matters Pvt Ltd
12	Independent Financial Planner of the Year	Alpha Capital
13	Independent Financial Planner of the Year (runner up)	My Financial Advisor



“Nobody accused me of running an ATM ministry”



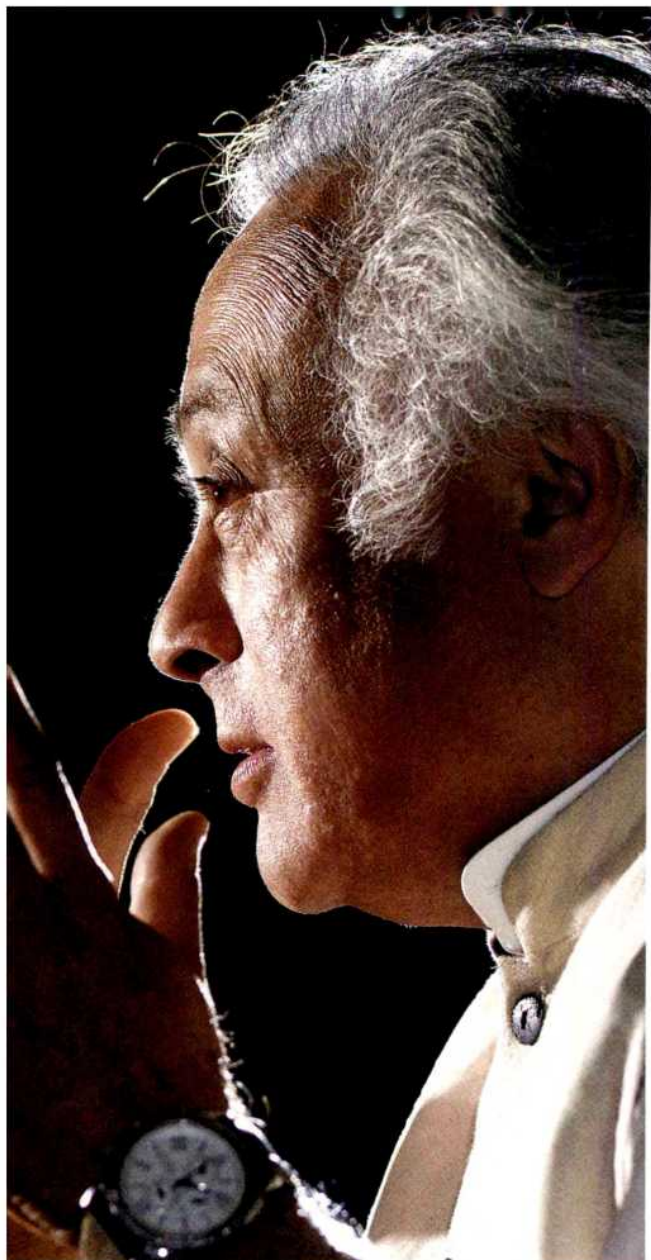
Green Signals: Ecology, Growth and Democracy in India

By Jairam Ramesh
PAGES: 604
PRICE: ₹850
Oxford University Press

A a time when the environment ministry is at the centre of a raging debate on clearances comes former UPA minister **JAIRAM RAMESH'S** *Green Signals*, a book packed with written records of his stint in the ministry. He says the book is not a political memoir, but does capture his evolution from a “growth-at-all-cost” person to someone with a more sustainable growth agenda. In a conversation with **Sarika Malhotra**, Ramesh minces no words when he calls the Ministry of Environment and Forests (MoEF) a bed of thorns, terms activists and lobbyists as hedgehogs, and wades into the prickly action with relish. Edited excerpts:

From economic administration to environment – what was the transition like?

In 2006-09, I was with the commerce ministry, and then I was in the power ministry. In UPA-II... to get environment and forest was a complete surprise. The transition was painful. It's a bed of



PHOTOGRAPHS BY SHEKHAR GHOSH

Full interview with Jairam Ramesh at businessday.in/environment-ramesh



Things emanate from the top. If I wanted the ministry to be transparent, I had to be so. It's important in public life to send these signals. In the 25 months I was at the ministry, there were lot of accusations against me: 'I did not go far enough to protect the environment; I went so far that economic growth decelerated.' But nobody accused me of running an ATM ministry.

You had said 'What India needs more of is the smooth fox – cunning and crafty – to find the balance between high growth and enduring conservation'. Were you that fox?

Well, I tried to be. But I tried to be a transparent fox. That's why the 13 speaking orders in 25 months; the unprecedented number of debates in Parliament. The environmentalists are hedgehogs; the GDPwallahs are hedgehogs of another type. You need freedom from both and you have to weave your way through these multiple stakeholders. I had decided that my approach would be like Mohammad Ali – float like a butterfly and sting like a bee.

In your tenure show-cause notices were issued to many industries, Lavasa project in Maharashtra, Jindal coal mining in Chhattisgarh, Adani Mundra port in Gujarat... inviting opposition from political class and industrialist – What was the phase like?

One has to understand that the MoEF is not the ministry of environmental clearances. It's the ministry of environmental regulation. It's there to protect the environment, not to accelerate growth. Although one can't be oblivious to growth, the fundamental dharma is to protect the environment, rivers, forest, ensure clean air, water... and in the process sometimes we end up making unpleasant choices.

Take us through some tough choices you had to make?

Do you need only that coal? Only that mine? Can't you have an alternative? Vedanta was a tough choice. Posco was a very tough call, the issue of genetically modified brinjal was difficult... Interestingly, I made some strange bedfellows in my ministry days – the *Saamana* editorial supported me on the Navi Mumbai airport project. The RSS was ecstatic at my decision on genetically modified brinjal. My own partymen Kapil Sibal, Prithviraj Chavan felt that I was stopping science. When Lavasa happened, good friends of mine who were staying in Lavasa called me to say 'it's such a beautiful place'. I told them, I am sure it's a beautiful place, but have the laws of the land been followed? People don't want to follow laws in this country and the more influential, powerful and rich you are – you forget the laws. Environmental clearance for Navi Mumbai airport was given in 2010; for Jaitapur and Posco five years ago...where are these projects? It's very easy to say that

thorns. The environmentalists are never satisfied. You can't please the growth constituency, as you end up taking positions which may seem to be not in favour of the corporate sector. So you just try to navigate the middle path; trying to be neither a pure environmentalist or a pure growthwallah, eventually pleasing neither. These are not black or white issues. These are issues of shades of grey. Particularly since we are living in a democratic set up – we have a civil society, environmentalists, people whose livelihoods are threatened – and that's what makes the job of decision making that much more difficult.

Why did you have glass doors to your office in all the ministries you were a part of?

Glass doors were a signal that people can come in anytime...don't need appointments. It's a transparent set up.

Why did you feel the need to send out these signals?

environmental clearances delayed projects.

You are credited with giving the MoEF an identity, why were you shifted out?

Why I was shifted, only the Prime Minister can answer. But I was told by the PM that I was being elevated. Rural development was as much a surprise to me as was environment and forest. Was I disappointed? No. I had finished 25 months... It's a long tenure in politics. I went from a ministry that had a budget of ₹3,000 crore to one that has a budget of over hundred thousand crores.

Did you feel let down?

I would have felt let down if I had got a ministry that was politically inconsequential. I knew there were people who were unhappy with me, including many ministerial colleagues, many Congress chief ministers. Everyone thought I was playing politics -- that I was treating Congress governments with kid gloves, whereas I was actually demanding more from them. However it didn't take me more than three hours to get into controversy in rural development ministry because of the land acquisition act.

Clearly, demarcation of forests into a 'go' and 'no-go' zone for coal plants was not taken well by coal ministry, corporate affairs ministry and industrialists.

It was the last straw that did me in. It was a serious issue, since all the big corporates got involved. Ironically it was not my idea. It was the Chairman of Coal India who said we should have 'go' and 'no-go' areas. And when we did the exercise it turned out that in the nine major coal fields of India -- 70 per cent was 'go' and 30 per cent was 'no-go'. The corporates are all my friends. The accusation against me in the 90s was that I was too corporate friendly. Now the accusation is that I am just not corporate friendly. Some of the corporates were certainly unhappy. Vedanta order was not an easy one. I have nothing against Mr. Anil Agarwal. Rather, I was the only one in Congress party supporting the privatisation of BALCO. Mr. Agarwal came to my house to discuss it a couple of times. But when it

came to Vedanta, it had different issues. I explained to him the point of view of the ministry. He chose to challenge us in the high court, and subsequently in the supreme court, which upheld my decision. It was a job that had to be done.

Did you face any pressures from Congress high command as alleged by Jayanti Natarajan?

Mr. Gandhi never called me nor did Mrs. Gandhi in the 25 months I was at the ministry....

Do you think it's possible to keep a balance between economic growth and ecological security?

Yes, provided you are able to take decisions in a transparent and accountable manner. Why should we have dirty air and water for 8 per cent growth; there is no iron law of economics. Sometimes the decisions you take will favour growth, sometimes the decisions will favour the environment. The same environmentalists who hailed me for Vedanta, attacked me for Jaitapur. You cannot have a blanket formula, you have to assess every situation in a detached, transparent and professional manner, and then take people into confidence. A paradox in India is people are ahead of the government when it comes to environment. People want clean air, water, rivers -- governments are in the grip of larger economic interests and agendas.

Why has the MoEF been so controversial -- from no clearances; to a slew of clearances?

The rapidity with which the clearances are being given, I hope due diligence is being done. I am told that the 'go' and 'no-go' area is now diluted to 90-10. I am concerned by the TSR Subramanian Committee because that is a recipe for ecological disaster. It is recommending full-scale dilution of environmental laws, regulations and rules, which will not be in national interest. I think lip service will be paid to the environment in the years to come. There will be a lot of rhetoric on climate change, solar energy, but when it will come to taking decisions, the Gross Domestic Product will triumph over the Green Domestic Product. ♦

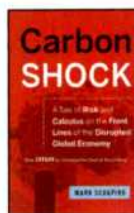
@sarikamalhotra2

ENVIRONMENT ON THE BOOKSHELF



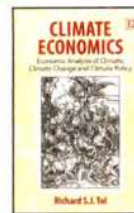
By William Nordhaus
Yale University Press

The book weighs the costs of emission cuts against the benefits of reducing the long-run damages from global warming.



By Mark Schapiro
Chelsea Green Publishing Co

The author explores the key tool to date on climate change, the international carbon trade, and its fate.



By Richard Tol
Edward Elgar Publishing

This book is an essential read for students of economics, climate change and environmental policy.

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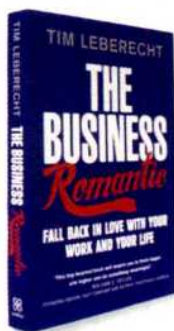
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Rules of Enchantment

A lyrical, inspiring book that aims to re-ignite the spark of passion in the work we do.



The Business Romantic

by Tim Leberecht

PAGES: 292

PRICE: ₹399

Hachette

Do you view yourself as a corporate rat on a non-stop treadmill? Marketer and TED speaker Tim Leberecht's lovingly-crafted book will make you look at work and life in a whole new way. He presents office as a wondrous place full of mysteries, interesting relationships, and offering a diversity of experiences and rewards. Even the dull daily ritual of dressing up for work is invested with thrill.

It's all about perspective, you see. Leberecht has the perspective of a romantic who spots the beauty in the mundane. But the book is by no means a dreamy in-the-cloud cataloguing of an idealist's vision of workplace. Leberecht looks hard at the reasons behind the figures thrown up by a Gallup Poll conducted in 140 countries, which found only 13 per cent of employees enthusiastic about their jobs. Debt, long work hours, social inequality, confusion, insecurity and growing isolation caused by the digital landscape – the reasons for disenchantment are many.

But Leberecht presents us with the alternate side of business life – the excitement, the learning, the sense of fulfilment. This he does by meeting scores of people and sharing their stories. Some of the characters are admittedly not the average corporate Joe, but creative folk with bizarre dreams. Take the story of Gaston Frydlewski who hated the ratty knots and labour of tying and untying that went into shoelaces so much so it forced him to drop everything and start redesigning shoelaces. He pursued his goal for over eight years to launch his own lacing system, a thriving business today.

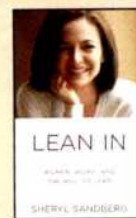
There are dozens of such incredible characters in the book, but Leberecht also writes about utterly relatable people, products and companies. Take Twitter. Leberecht calls it a social collision of forces, and a place where you celebrate witty repartees, provocations, and lightning speed slices of intimacy. He brings Twitter alive through the lens of Twitter's editorial director 62-year-old Karen Wickre, a tech journeywoman with a liberal arts background who manages to draw out human whims even in an algorithm-driven world. Or take those ubiquitous networking conferences that jaded corporate foot soldiers yawn their way through. Leberecht approaches these events with the same tingling sense of anticipation you would have at meeting an exciting stranger for dinner.

Leberecht seeks purpose in our business life, digging deep among his friends, strangers, historical books, and management classics. As he writes, "With small acts of significance, we can reclaim our narratives." It's a book that fills you with pleasure in the same way that Byron's poetry does, even as it educates, enlightens and awakens. ♦

CHITRA NARAYANAN

Lean In: Women, Work, and the Will to Lead

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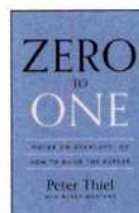


By Sheryl Sandberg
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Price: ₹599

Sandberg draws upon her experiences to find answers to problems facing women in the workplace.

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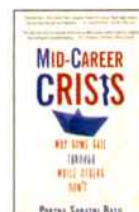
Zero to One

By Peter Thiel,
Blake Masters
Random House
Price: ₹499



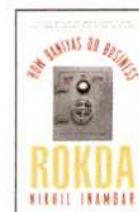
How Google Works

By Eric Schmidt,
Jonathan Rosenberg
Hachette India / Hodder & Stoughton
Price: ₹650



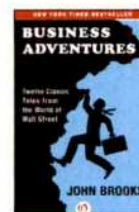
Mid-Career Crisis

By Partha Basu
Harper Collins India
Price: ₹299



Rokda

By Nikhil Inamdar
Random House
Price: ₹199



Business Adventures

By John Brooks
Hodder & Stoughton
Price: ₹399

*Top books by sales for Feb 17-March 3; Includes only books released after April 1, 2014. Information provided by amazon.in

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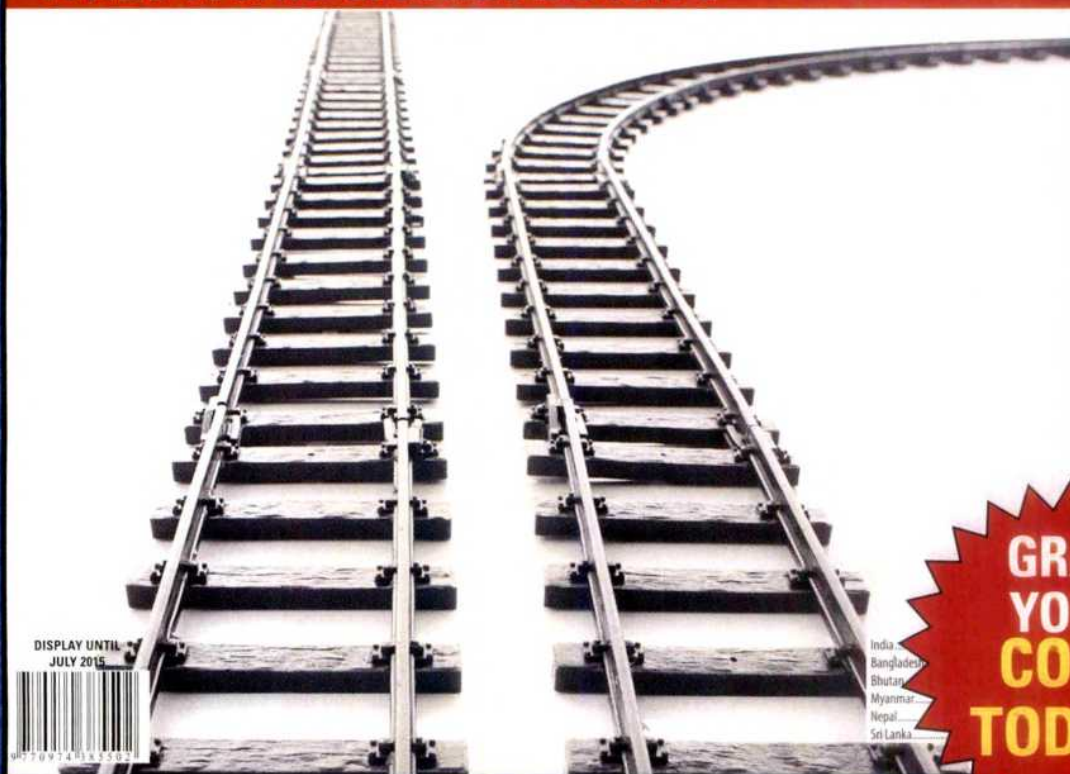
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TopGear Consultants Private Limited

Sr Manager Product

Location: Mumbai

Job ID: 14906921

Description: Product design, pricing, getting the appropriate product-channel combination to sell the right plan and managing the feedback loop with customer and channels.



EMC Corporation

Delivery Manager Professional Services

Location: Pune

Job ID: 16497802

Description: Responsible for individual client engagements from Virtual Service Delivery organization.



Cadila Pharmaceuticals Limited

Sr. VP Operations

Location: Ankleshwar

Job ID: 16552893

Description: Overall responsible for effective Production, Engineering & EHS operations of Unit I & Unit II Plant of Ankleshwar.



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Location: Bengaluru / Bangalore
Job ID: 16495833
Description: Experience and expertise in application migration between different platforms including defining the migration approach, design requirements, test criteria, etc.



Capgemini
Oracle & SQL DBA
Location: Mumbai
Jobs ID: 16530767
Description: Experience into Oracle 10g/11g RAC, Should be aware of Oracle 10g/11g Grid.



Hexaware Technologies Limited
Eagle Star Developer
Location: Mumbai, Pune
Job ID: 16210406
Description: Good in Eagle STAR, Oracle PL/SQL, Capable of working independently with demonstrated attention to detail, Hard working and self-motivated, requiring minimum supervision.



Fiserv India Private Limited
CA Clarity
Location: Noida
Job ID: 16511561
Description: Configuration and customization of CA Clarity product including forms, portlets, and reports.



Ikya Human Capital Solutions Pvt Ltd
Sr Developer - Baclays
Location: Pune
Job ID: 16562741
Description: 3-6 yrs of exp in IBM CMOD development or similar ECM product (liferay/ drupal / dotcms/ dnn/ sharepoint/ cloudcms/ atex/ mangolia/ sitecore/ etc anything ECM tool)).



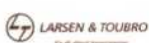
Cisco Systems India Private Limited
SE JAVA, REST, AWS
Location: Bengaluru / Bangalore
Job ID: 16533823
Description: 8+ years of experience of java programming, 5+ years of experience, exposure to technologies such as REST, XML.



Cvent India Private Limited
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Job ID: 16506603
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Location: Madurai
Job ID: 16566027
Description: Responsible for Driving Mutual Funds and PMS Sales through Channel Management.



ABC Consultants Private Limited
Sales Manager
Location: Delhi
Job ID: 16563560
Description: Maintain Client relations for the employees mapped to the RM ensure implementation of Sales Management Process.



Give India
Sales Executive
Location: Mumbai
Job ID: 16559469
Description: Sales executives will be required to visit the companies, meet the employees on a one to one basis by going desk to desk and explain.



KRM Global
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Location: Noida
Job ID: 16559539
Description: Responsible for General Accounting, Intercompany accounting, Reconciliations, Intercompany Settlements.



2COMS Consulting Private Limited
Financial Reporting-MM
Location: Bengaluru / Bangalore
Job ID: 16557469
Description: Candidate will be responsible for financial reporting, SAP, VBA, macro.



Quotient Consultancy
CA - Finance & Acc
Location: Mumbai
Job ID: 16379936
Description: Looking for Sr Manager Accounts & Finance. CA - From Insurance Company Only.



Golden Opportunities Private Limited
AM / Manager- Insurance Reporting
Location: Gurgaon
Job ID: 16546310
Description: Looking for candidates with 3+ years of experience in insurance reporting.



Tesco Hindustan Service Centre
Accounts Executive
Location: Bengaluru / Bangalore
Job ID: 16527796
Description: Working knowledge of AP process, Strong Accounting Knowledge, Process all supplier invoices and credit notes after thorough analysis.



Infogain India Private Limited
Executive-Financial Analyst
Location: Noida
Job ID: 16488685
Description: Responsible for creating & supporting the preparation of various BU & account level revenue, expense & business based reports, preparation of monthly finance reports etc.



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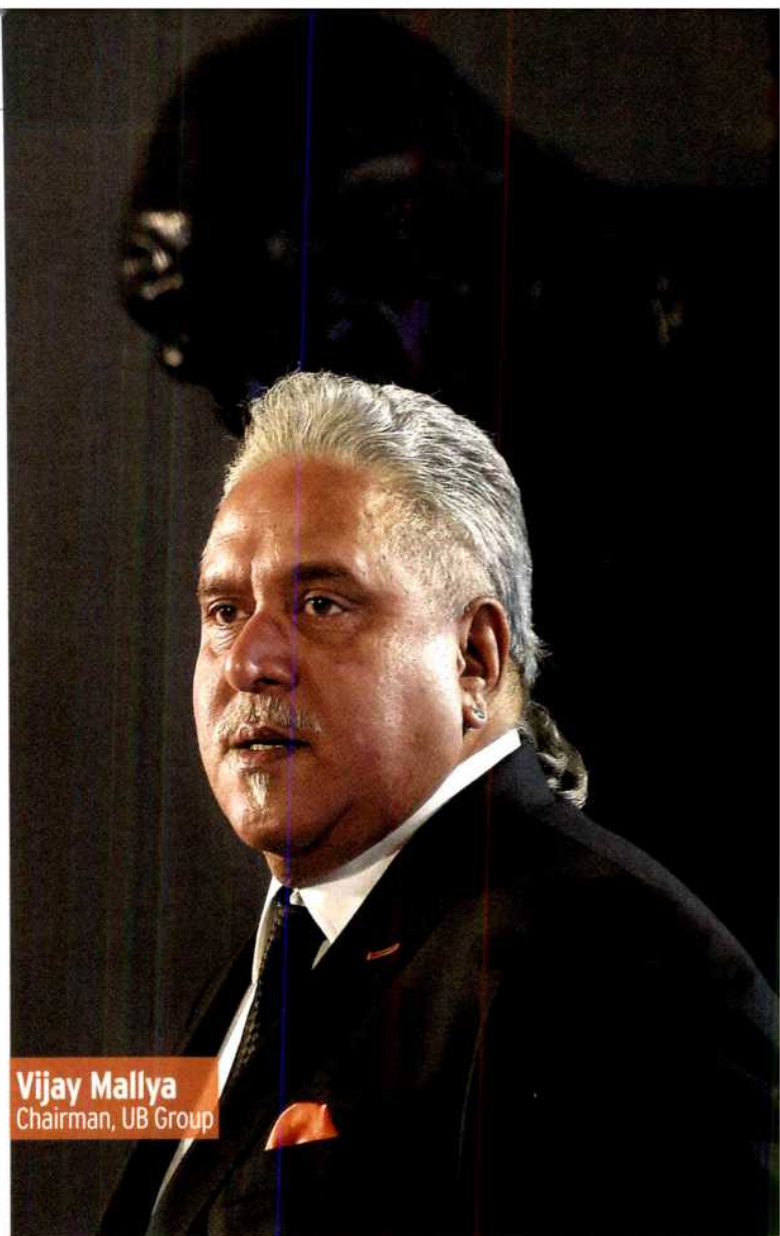
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Kingfisher House Grounded

VIJAY MALLYA, the financially beleaguered head of the UB Group, would have expected 2015 to bring some change in his fortunes. He couldn't have been more wrong. Things have, in fact, not started on the right note for him. A 17-member consortium led by the State Bank of India took over the prized headquarters of Kingfisher Airlines located at Vile Parle, Mumbai. Spread over 17,000 sq. ft., Kingfisher House is valued at around ₹100 crore. The bank consortium is trying to recover the ₹6,800 crore it had lent to Kingfisher Airlines, which was grounded in October 2012 after running up huge losses. UB Group, however, claimed in a statement that it had handed over the property. Will Kingfisher Villa in Goa, another prized asset of Mallya, be next on the lenders' radar?

VENKATESHA BABU



Vijay Mallya
Chairman, UB Group

GETTY IMAGES



M. ZHAZO

Noble Intentions?

The government may have denied that it wanted to oust **AMARTYA SEN** from the chancellorship of Nalanda University, but the Nobel Prize-winning economist seemed firm on his decision to step down in July when his term comes to an end. Sen had said that his decision was driven by the fact that academic governance in India remains deeply vulnerable to the opinions of the ruling government. Sen, along with a group of scholars, was tasked with reviving the ancient university, about 800 years after it was razed by invaders. Lord Meghnad Desai, who is a member of the governing board of the university, refrained from commenting on the issue. "I will not comment on the Amartya Sen debate. As a member of the governing board, I need to wait till a full meeting of the board takes place before I can comment. Anything else would be irresponsible," he said.

SARIKA MALHOTRA

Amartya Sen
Nobel laureate

Oscar Glory

It has always been **NAMIT MALHOTRA's** dream to make his company, Prime Focus, the Pixar of India. He wanted to be a name to reckon with, globally, in the visual effects space and, with this in mind, he acquired Double Negative, one of the largest global visual effect service providers, last June. Malhotra, indeed, is proud of his latest buy, as it won him an Academy Award (Oscar) for Special Effects for the film *Interstellar*. Back home, the pioneer of visual effects in India is a clear market leader, and is further consolidating his position. In fact, last year, he picked up a stake in Reliance MediaWorks.

AJITA SHASHIDHAR



Namit Malhotra
Founder, Prime Focus

UMESH GOSWAMI

Shake-up Casualty

In a major management shake up, **JASPAL BINDRA** will be stepping down as Group Executive and CEO for Asia, Standard Chartered Bank. There is no communication yet on his new responsibility. Bindra, 54, has been with the bank for close to two decades. He was part of Global CEO Peter Sand's team. Sands, who ran the bank since 2006, has also quit his position. Having started his career with Bank of America in 1984, Bindra also worked with UBS. Known for his frank views, he courted controversy last year when he talked about banks increasingly being asked to police anti-money laundering activities. Standard Chartered had then termed it as his personal views.

ANAND ADHIKARI

Jaspal Bindra
Outgoing Group Executive and CEO,
Asia, Standard Chartered Bank



Jagmohan Dalmiya
President, BCCI



N. Srinivasan
Former President,
BCCI

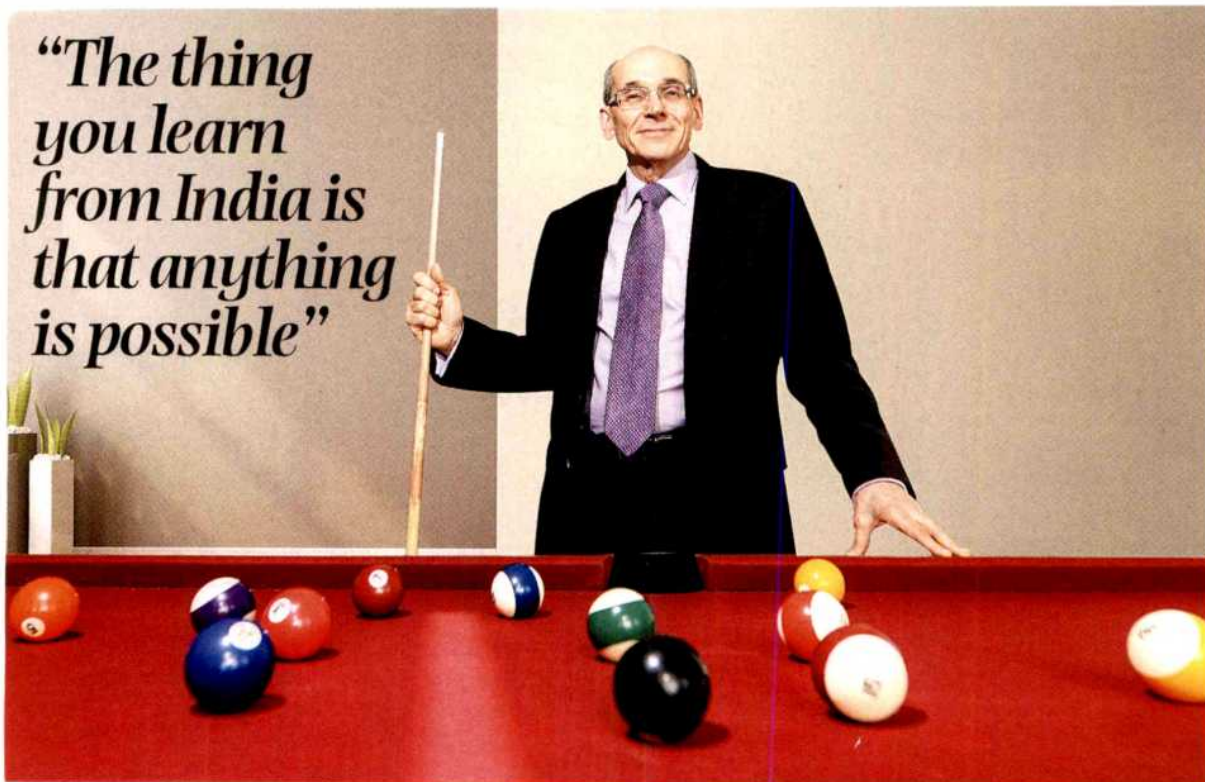
Old Guard Takes Guard

At the 85th Annual General Meeting of the Board of Control for Cricket in India (BCCI) in Chennai on March 2, veteran cricket administrator **JAGMOHAN DALMIYA** was elected as its president. Many see this as a setback for **N. SRINIVASAN**, former BCCI president, and Vice Chairman and Managing Director of India Cements. The news comes in the wake of the controversy surrounding Srinivasan chairing a meeting of the BCCI working committee despite an apex court ruling barring him from functioning as a cricket administrator due to his conflict of interest as the owner of IPL franchise Chennai Super Kings. How Dalmiya's return as BCCI chief makes a difference to Indian cricket remains to be seen.

E. KUMAR SHARMA



NISHIRANT GAMRE



Ed Nusbaum, Global CEO of professional services company Grant Thornton, was in India recently. He spoke with **Goutam Das** on the company's growing business in and learnings from India. Edited excerpts:

Is it a good time for your company to do business in India? Globally, consulting does well when economies are depressed, which means you will do just fine in Europe but not in India.

We do accounting, auditing, tax and consulting advisory services. It is true that we have experts who restructure businesses in a down economy. But for us, a good economy is a good thing. So the positive situation in India is positive for us. Grant Thornton has 40,000 people worldwide. We have 2,000 in India. India is one of the fastest growing countries for us. We see tremendous opportunity for the accounting profession. As companies grow, there is a lot of focus on improving corporate governance – improved internal control, auditor rotation, increased oversight of the accounting profession. That creates opportunities for us. In addition, India has moved towards International Financial Reporting Standards (IFRS). It makes it easier for foreign direct investment (FDI) to come in because India would be using the same accounting standards as the rest of the world. As people look to evaluate their investment, they would get better information. In order to get that information, they need support from accounting firms. We see the opportunity to grow very rapidly in India. A lot of our focus is on Indian companies who want to become global, or are already global.

Recently your company has seen a spate of lawsuits globally (a property tycoon in the UK launched a £2.2 billion lawsuit against the firm and others, for instance) What's the lesson here for you as the CEO?

In the accounting profession all firms get sued for different matters. It is a very unfortunate part of our business. It is not the same in each country. Of course, the US is the most litigious. As you look at corporate governance and changing laws in India, I would encourage you not to adopt the US litigation environment, which makes it difficult for companies to do business. We learn from every situation. We are constantly trying to improve our quality, inspections. Whether it is a lawsuit or an inspection process, we study those cases, learn from them, and try to adjust our policies, procedures to improve the quality as an ongoing process.

What has been your personal learning from your operations in India?

The thing you learn from India is that anything is possible. The rapid pace of change, the utilisation of extremely smart people combined with technology can dramatically change processes. You can get some of the best ideas from the youngest people – that is something I have learnt coming to India. ♦



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Ratan Tata, Sachin Bansal, Kunal Bahl, Deep Kalra and dozens of other successful businessmen and entrepreneurs are writing cheques for start-ups. They are reshaping the entrepreneurial ecosystem

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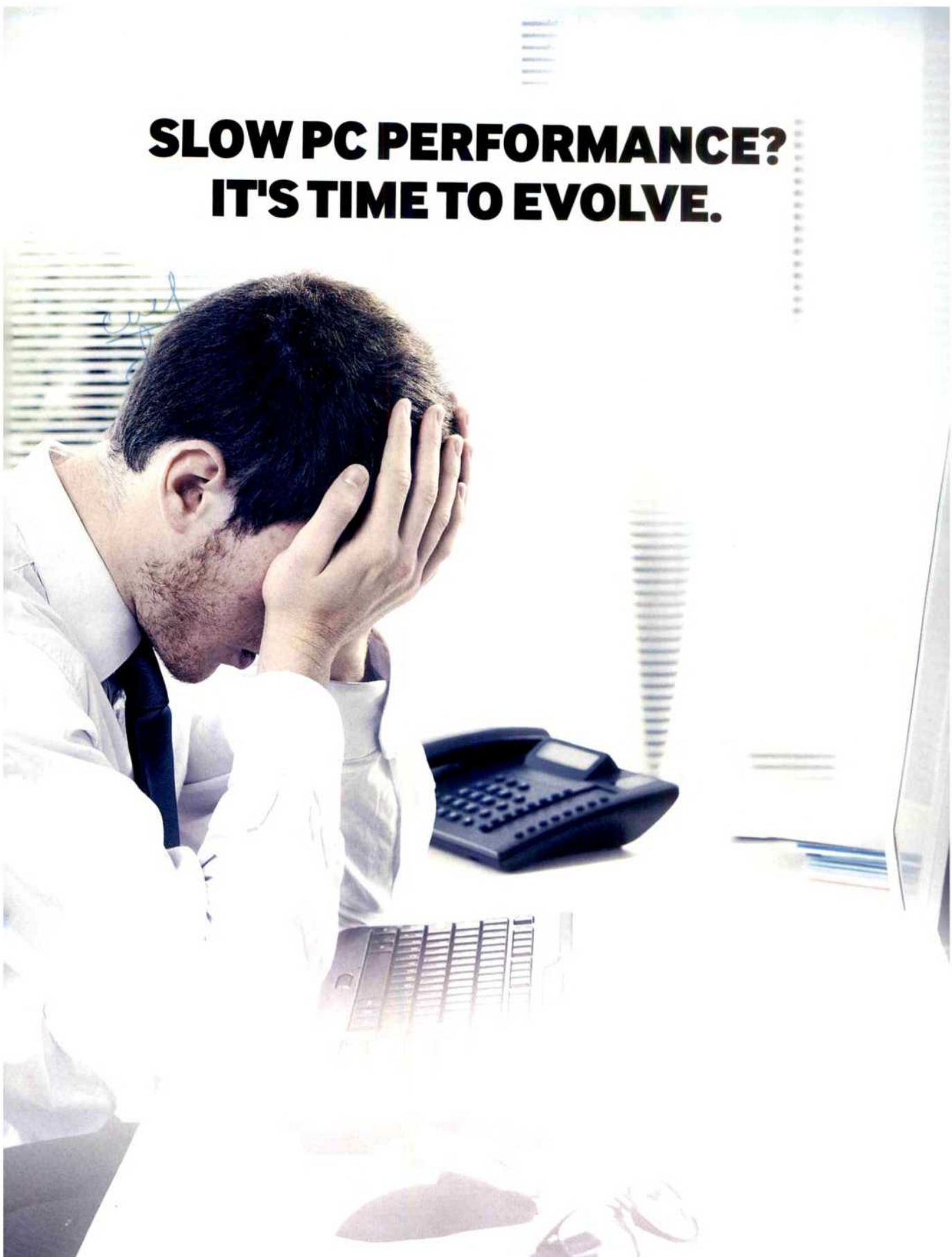
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From the Editor

Manna from Heaven

In Roman mythology, unicorns were creatures with the body of a horse, the head of a deer, and a single horn sticking out from the middle of their foreheads. Start-ups that are valued at over a billion dollars are also dubbed as unicorns because they were supposed to be a myth – investors and entrepreneurs dreamt of them, but few had actually seen one. Not any more, though – the US today boasts of over 40 “unicorn” start-ups, and India has at least half a dozen, if not more. Flipkart, Snapdeal, Paytm and Ola are counted among the Indian unicorns.

But for every unicorn start-up that has been valued at over a billion dollars and has raised hundreds of millions of dollars of funding, there are thousands of entrepreneurs and start-ups that are scrabbling to raise a few lakhs of rupees for their operations. Too many promising ideas die out because the entrepreneur has simply not been able to raise the funds necessary to survive the first couple of years before he approaches an institutional investor.

Till a couple of years ago, angel funding – or the first round of non-family, non-friend cash that a start-up raises – used to be a trickle. Now it has turned into, if not a flood, at least a healthy gush from the tap. That is because a huge number of former and current entrepreneurs is digging into their pockets to give money to great ideas and start-up teams they come across.

The new angels range from entrepreneurial legends such as N.R. Narayana Murthy, Co-founder and Chairman Emeritus of Infosys, to the co-founders of the current unicorns – Kunal Bahl and Rohit Bansal of Snapdeal, and Sachin and Binny Bansal of Flipkart.

The number of angels in India has more than doubled in the past two years as has the amount of money being invested, and that is great news for the start-up sector. Most of these angels are not looking at making money from these investments – quite a few see it as a means of giving back something to strengthen the entrepreneurial ecosystem.

The rush of new angels is one of the few bright spots in the current economic environment. Despite the programmes started by the Modi government and its much-repeated intentions to make business easier in the country, few big corporations have actually started new projects. In fact, the corporate activity in the country currently is primarily focused on mergers, acquisitions and consolidation of plants and other businesses. So in a way, few new companies or projects are being started by major business houses in the country.

That is why the onus of starting new businesses has almost entirely fallen on first-time entrepreneurs with new ideas and a lot of fire in their bellies. While it is a given that many of these start-ups will inevitably fail, some will go on to become billion-dollar businesses, hiring thousands of people and becoming blue chips in the equity markets. First-time entrepreneurs might have ideas, but most need some money as well – and that is why the rush of angels is so welcome while it lasts.



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Vol. 24, No. 7, for the fortnight March 30 to April 12, 2015.

Released on March 30, 2015.

■ Editorial Office: India Today Mediaplex, FC-8, Sector 16A, Film City, Noida-201301. Tel: 0120-

4807100. Fax: 0120-4807150. ■ Advertising Office (Gurgaon): A-42, Enclave Centre, Ground Floor, V.N.

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Bagga on behalf of Living Media India Limited. Printed at Thomson Press India Limited, 18-35,

Milestone, Delhi-Mathura Road, Faridabad-121007. (Haryana). Published at K-9, Connaught Circus,

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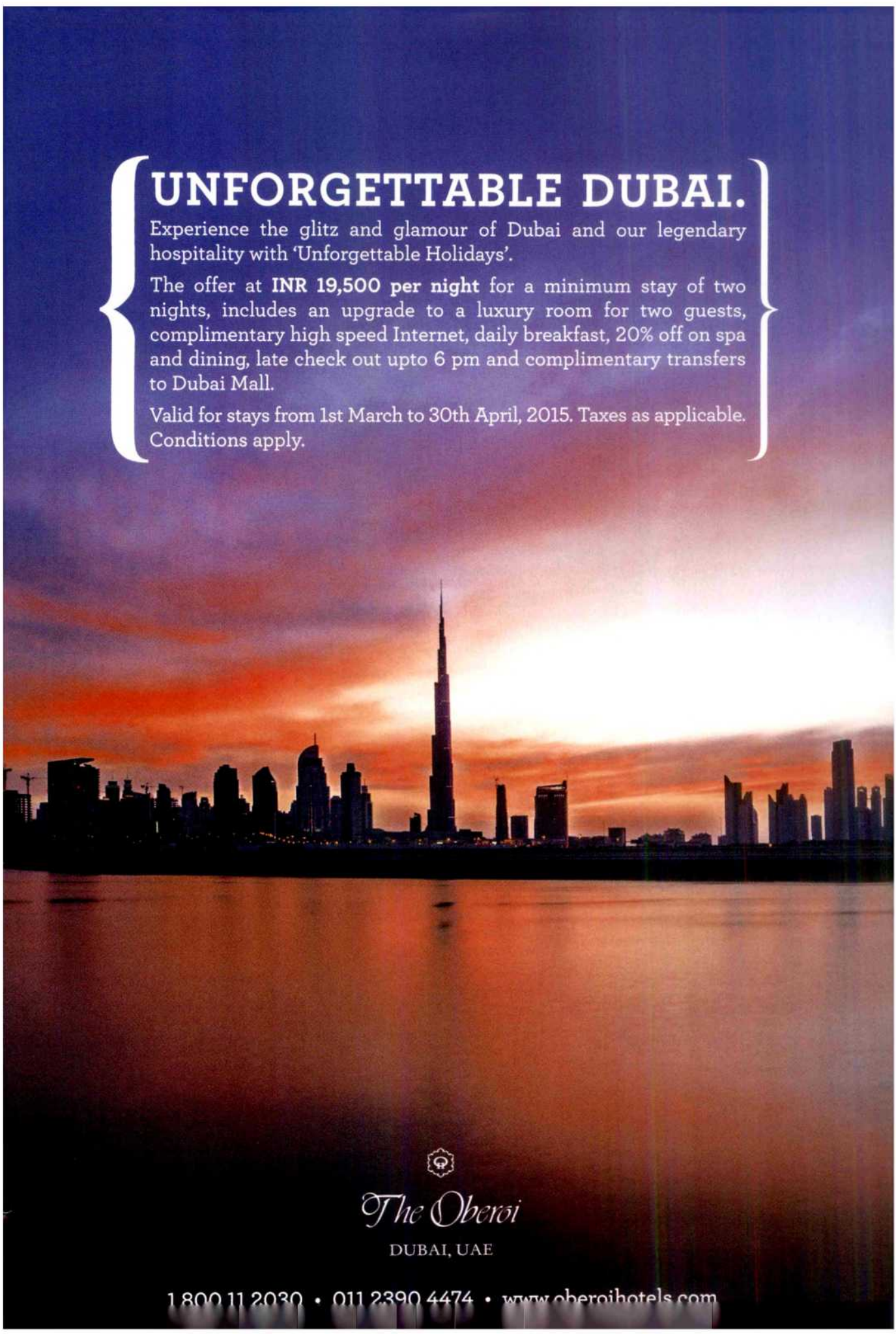
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A full-page background image showing the Dubai skyline at sunset. The Burj Khalifa is the central focus, with other skyscrapers visible on either side. The sky is a mix of orange, red, and purple, and the city lights are visible at the base of the buildings. The water in the foreground reflects the colors of the sky.

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Undaunted Hero

This refers to your cover story on Hyundai (*Chasing Maruti*, March 29). In the Indian car market, Hyundai has been a serious competitor to Maruti for a long time. I feel technology advancements and timing of launches have paved the way for Hyundai to increase its market share. However, the road ahead will be much more competitive as the portfolios of major players are increasing with the introduction of new segments, such as

premium hatchbacks and compact SUVs, every now and then. The only success formula for all car manufacturers will be to offer more benefits, such as fuel efficiency, comfort and safety, to the consumer to conquer the roads.

K.M. Muthuraman, Chennai

The IITian Tea

This refers to the article on *Chaayos*, a new start-up by two IITians (*Cutting Chai, Cafe Style*, March 29). The attempt to open tea cafes/parlours along the lines of Starbucks and Cafe Coffee Day is definitely a novel idea. But whether they will be able to survive in this competitive market is a million 'kullad' question. Many new generation entrepreneurs often forego lucrative corporate careers after passing out from elite institutions such as the IITs to start such "funky" experimental ventures, but do they have the appetite to go the whole hog? Hope the tea-sipper will be compensated by the ambience, novel flavours and add-ons for the ₹59 they pay for every cuppa.

J.S. Broca, New Delhi

A Budget or 5-yr Plan?

This refers to your story on Budget 2015, *For A Few Rupees More* (March 29). The Union Budget came a cropper on income tax concessions for individuals and was anti-middle class. The common man has not got a single major window to even save a little more. On the other hand, an increase in service tax rate from 12 per cent to 14 per cent will prove to be a big drain on his pocket. Was this an annual Budget or a Five-Year Plan of the newly-formed Niti Aayog? There is no doubt that long-term measures are a necessity to benefit the Indian economy as a whole, but at the same time short-term measures that will benefit the common middle-class people must not be ignored.

Mahesh Kumar, New Delhi

Correction

The article *Game of Screens* (March 29) erroneously reported the number of screens for PVR and Carnival Cinemas. PVR has 469 screens, while Carnival has 346 functional screens. The error is regretted.

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Very soon, you can send money to your friends through Facebook. It appears Facebook will force everyone out of business.

- **Dhaval Prajapati**

HDFC launches mobile app Chillr to transfer funds to phone book contacts.

It is a great idea. But it is probably not secure. - **Vipul Panchal**

Top 30 defaulters' NPAs amount to ₹95,122 crore in PSU banks.

Listing defaulters' names will be wonderful. - **Krishan Kumar Mittal**

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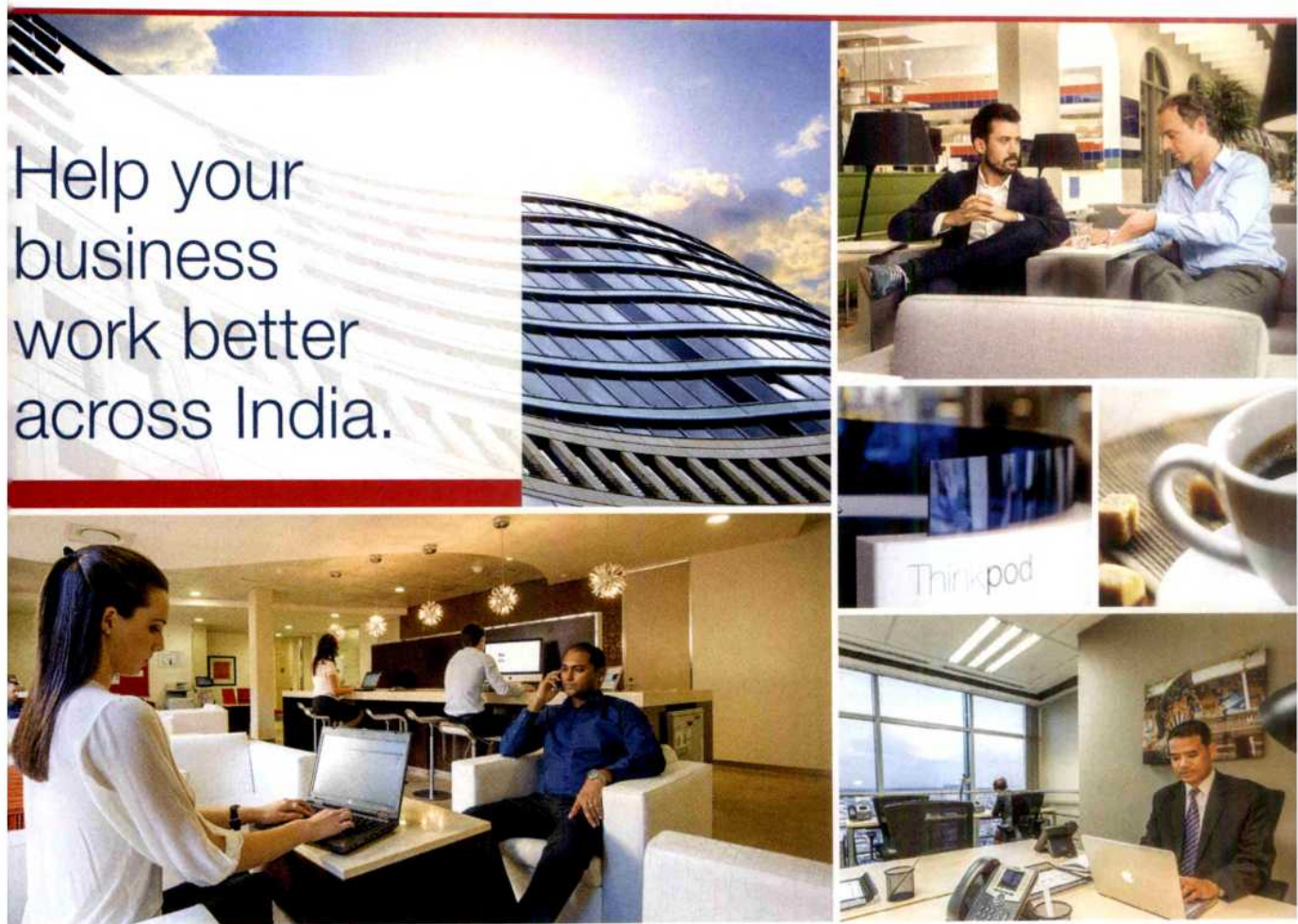
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The New Angels

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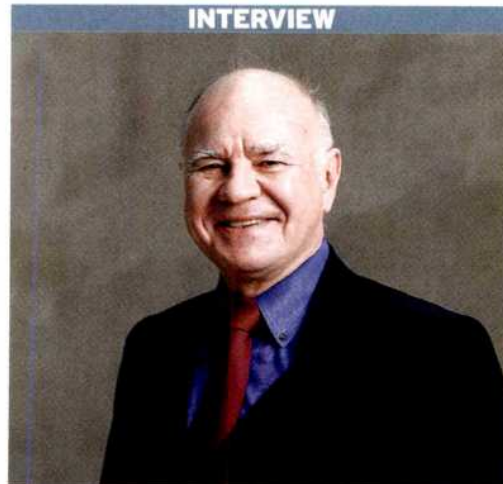
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"I don't see the US hiking rates in 2015"

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Sameer Arora of Syntel says India must use the Internet to bridge the socio-economic chasm.

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Xiaomi launches Mi Pad tablet in India for ₹12,999.

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"They told us 'you do not know anything, why did you start the passenger car division at all'. They said they will do us a favour by buying our car division..."

Tata Group veteran and finance brain **Praveen Kadle** must have become emotional after receiving the Y.B. Chavan National Award 2014 on behalf of **Ratan Tata**. Why else would he spill the beans, not the least of which being that Tata wanted to sell its passenger car division to Ford less than a year after launching the Indica? Maybe Kadle was carried away by the happy ending.

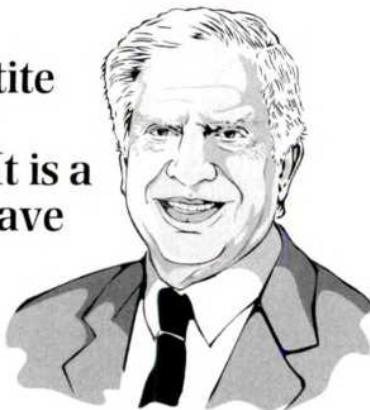
"This was in 1999 and come 2008, the same Ford's JLR was bought by us. Ford Chairman Bill Ford thanked Tata, saying 'you are doing us a big favour by buying JLR'"

Or maybe it was all a big misunderstanding; Kadle spoke mostly in Marathi.

Ratan Tata, though, seems to have put the entire episode much behind him and is talking new economy.

"India is a big country with a tremendous appetite for computer-based or Internet-based services. It is a nascent industry and I have chosen to support it"

Tata told PTI in the UK. He has made at least five investments already in e-commerce ventures, all in his personal capacity.



"PATIENT"

The word was removed from the Federal Reserve's policy statement on interest rates. The US central bank's Chair Janet Yellen, however, clarified that the editing did not mean she was going to be impatient. Nevertheless, the Fed is perceived to be closer to raising rates for the first time since 2006, even as it downgrades its economic growth and inflation projections.

Apple Pay
6%

The estimate of fraudulent transactions on Apple Pay

0.1%

Credit card fraud, by value

As reported by *The New York Times*, quoting industry consultant Cherian Abraham

PROJECT SPARTAN

The code name for Microsoft's new browser, which will come with Windows 10, due for release this summer. The company will, however, continue to make the Internet Explorer available to enterprises and those who need legacy support. Spartan is named after the protagonist in Microsoft's Halo game series.





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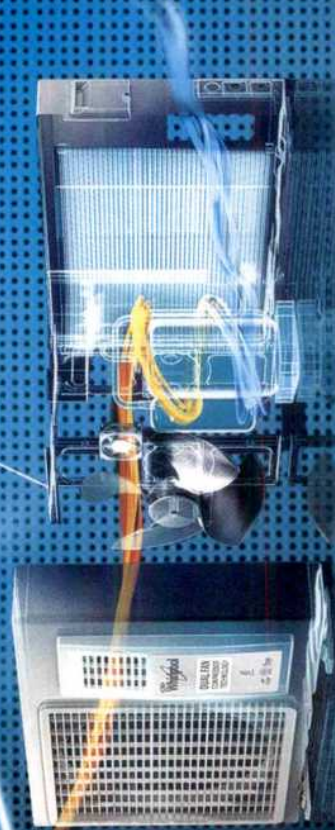
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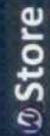
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1

THE BANK RUSH

WHAT: New norms on restructuring of stressed loans by banks

WHEN: April 1



WHAT TO LOOK FOR: Banks are rushing to revamp loans to avoid classifying them as bad loans from April 1. For this, they will have to set aside higher provisions, or capital buffer, which will eat into their profits. The country's largest lender, State Bank of India, estimates that loans worth ₹5,500 crore may be revamped by March-end. The bank's overall revamped assets, which stood at ₹58,938 crore at the beginning of the financial year in April 2014, rose to ₹66,704 crore as on December-end. Five sectors – infrastructure, iron and steel, textiles, aviation and mining – contributed 52 per cent of banks' total stressed assets while the share of credit to these sectors was 24 per cent.

1

WOMEN ON BOARD

WHAT: Sebi warning to companies

WHEN: April 1

WHAT TO LOOK FOR: The regulator has asked listed companies to appoint at least one woman director on their boards by the stipulated date. Close to one-third of the top 500 listed companies do not have any woman on their boards.



AIJAY THAKUR

1

TAKING ACCOUNT

WHAT: New accounting norms

WHEN: From April 1

WHAT TO LOOK FOR: The implementation of global reporting standards may impact sectors such as infrastructure and financial services. Those related to manufacturing will not see much adverse impact, according to the Institute of Chartered Accountants of India. Companies with net worth of ₹500 crore or more would have to comply with the new norms from the new financial year. Banking, insurance and non-banking finance companies are exempted from the roadmap released by the government.



25 - 27

BUSINESS WITH ENTERTAINMENT

WHAT: Ficci-Frames 2015

WHEN: March 25-27

WHERE: Mumbai



WHAT TO LOOK FOR: The three-day global convention covers the entire gamut of media and entertainment such as films, broadcast (TV and radio), digital entertainment, animation, gaming, and visual effects. Nearly 2,000 Indian and 800 foreign delegates are expected to attend the event.

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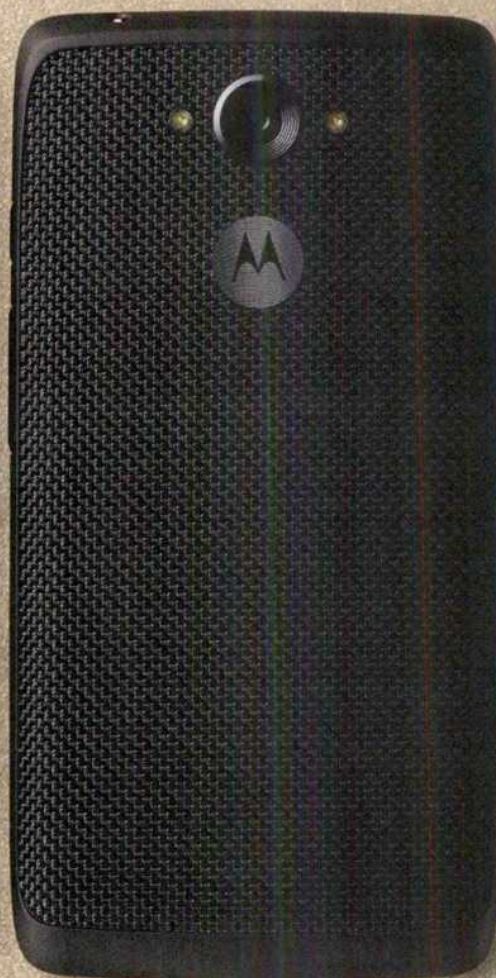
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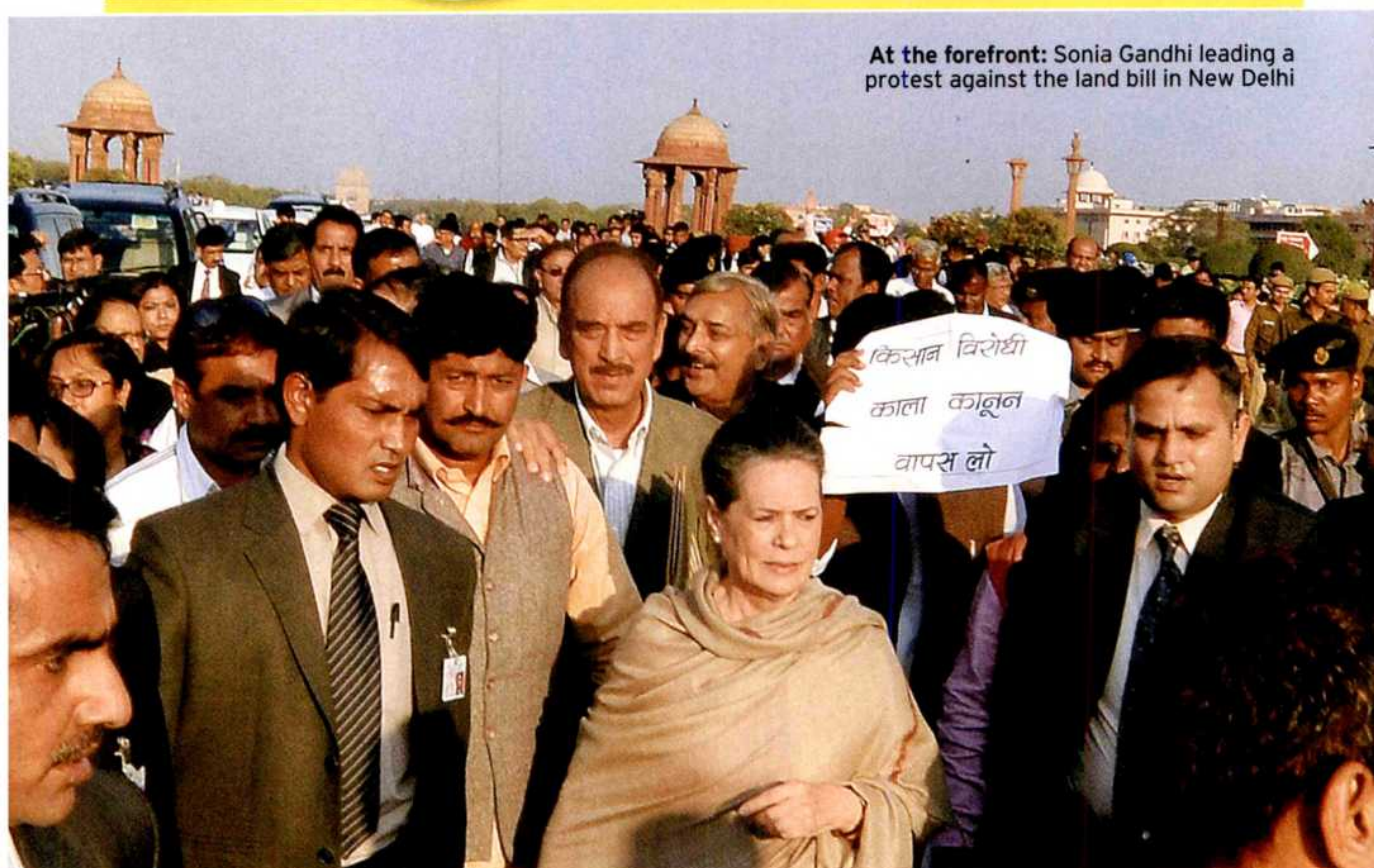
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FOCUS

20 Spectrum auction:
Paying the Price

28 Column: Floating in
the Cloud

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it Pinches



At the forefront: Sonia Gandhi leading a protest against the land bill in New Delhi

PANKAJ NANGIA

Opposition Lands A Blow

The land bill is not anti-farmer, but the Centre has to fight the united opposition politically. By RAJEEV DUBEY and ANILESH S. MAHAJAN

13
The number of Acts
brought under the
land acquisition bill

Sonia Gandhi-led Congress has united a ragtag Opposition against the amendments to the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement (Amendment) Bill 2015 – popularly known as the land acquisition bill.

Gandhi took it upon herself to lead the agitation after the BJP-led government passed the Bill in Lok Sabha by brute force because of its overwhelming majority in the House. Gandhi calls the amendments 'anti-farmer' and 'pro-corporate' compared to the original bill passed by the UPA government.

The question, however, is whether the newfound unity among the Opposition is really an attempt to protect the interests of farmers or a desperate effort at extracting political mileage out of the burning issue. Incidentally, most of those who participated in the protest march along with Gandhi, would be taking the BJP head on in the forthcoming state assembly elections in Bihar and West Bengal, where the BJP is gaining more groundswell.

Despite the vehement protests on the streets and inside the House, by most accounts, the Bill is not anti-farmer as it is being made out to be. Here's why.

For one, the Narendra Modi government was prudent enough not to tamper with the most critical clause of farmers' compensation for the acquired land. It was the UPA chairperson who had overruled her national advisory council to provide the farmer with four times the market price as compensation in rural areas and twice the price in urban areas. Her decision derived from the fact that land sharks had, for decades, disadvantaged the farmer in the land acquisition process – the main cause of grief among landowners.

In fact, most farmer agitations in the country were triggered by skyrocketing prices of farmland following the change in land use after acquisition. Whether it was at Barnala where Trident Industry was at loggerheads with the locals in Punjab, or the protests at Bhatta Parsaul, in Uttar Pradesh, against Jaypee Group for the construction of Yamuna Expressway, farmers have always felt cheated as they were kept in the dark about the end use of the land. In fact, farmers have always been more than happy to part with their land if they got fair compensation. Take the case of the land acquired in Mohali district of Punjab for the airport project in 2009/10. Farmers were paid ₹1.5 crore per acre for the 310-acre project and there has never been a murmur about it. To make the deal sweeter, the state government gave farmers 10 per cent extra as no-litigation benefit, among other goodies, such as stamp duty waiver, if they wanted to buy a new patch of land anywhere in the state.

One of the most significant amendment is the government's decision to bring in 13 other Acts under the Bill, so that, unlike earlier, farmers get a substantially higher compensation (as per the Bill) even in case of land acquisition under those Acts. These include: Atomic Energy Act, 1962; Railways Act, 1989; Petroleum and Minerals Pipelines (Acquisition of Right of User in Land) Act, 1962; Electricity Act, 2003; Requisitioning and Acquisition of Immovable Property Act, 1952; Metro Railways (Construction of Works) Act, 1978; National Highways

Act, 1956; Land Acquisition (Mines) Act, 1885; Coal Bearing Areas Acquisition and Development Act, 1957; Ancient Monuments and Archaeological Sites and Remains Act, 1958; Damodar Valley Corporation Act, 1948; Resettlement of Displaced Persons (Land Acquisition) Act, 1948; and the Indian Tramways Act, 1886. So far, when land was being acquired under these Acts, they were not governed by a uniform policy on resettlement and rehabilitation that the new Bill provides.

Next, the move to keep preliminary grievance redressal at the district level with a quasi-judicial authority is a very significant concession to the farmers since it will ensure he does not waste time and money in travelling long distances from his place of origin. Compulsory employment to a member of the family displaced by land acquisition will also ensure a regular source of income, besides the high compensation.

This income could act as a buffer for the family since past experience shows that farmers often fall into a debt trap by splurging compensation money on liquor and non-productive assets such as cars.

Instead of exempting social impact assessment (SIA), which requires approval from 80 per cent of land owners, the Bill has left it to the discretion of the state government. Local farmers' bodies will clearly have greater influence over the powers-that-be in the state govern-

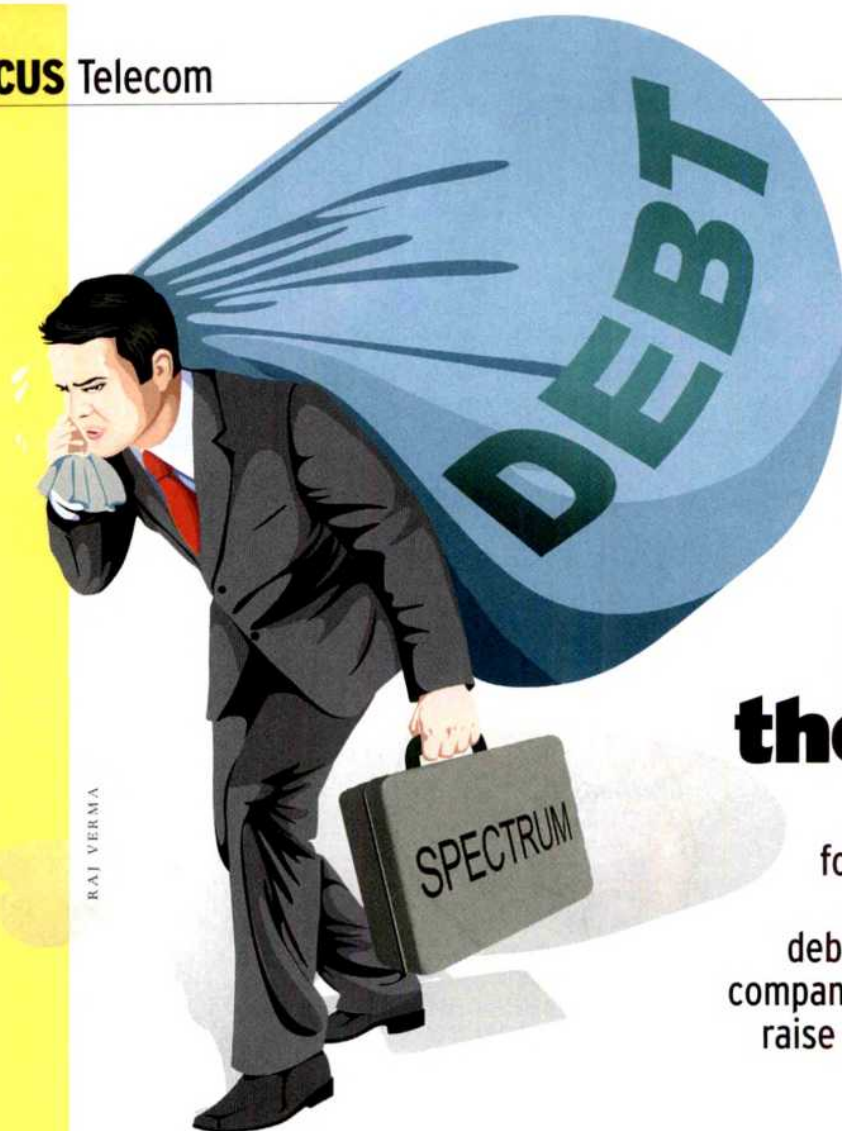
ments. Hence, they can ensure projects of a certain size do go through SIA. From the industry's point of view, this clause would mean that most industry-oriented states, such as Andhra Pradesh, Madhya Pradesh, Rajasthan, Haryana and Maharashtra (mostly ruled by the NDA), will have an exit route. In fact, regional parties ruling in states such as Odisha, Tamil Nadu and Uttar Pradesh are also extending support to the Bill by keeping quiet on SIA.

In acquiring land, the government will prioritise use of wasteland. It will conduct a nationwide survey of wasteland to help identify land that could be used for industrial and social infrastructure projects. The argument of not acquiring land where more than two crops are cultivated, does not carry weight, though, as this will push states like Haryana and Punjab, as well as western UP, behind.

Meanwhile, the Ordinance – unless ratified by both Houses of Parliament – is set to lapse on April 5, 2015. Given the ongoing opposition and the government's inability to make a breakthrough, it's highly likely that it will have to re-promulgate it and risk itself of being branded anti-democratic and anti-Parliament. But the real test will be to avoid being labelled anti-farmer. ♦

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RAJ VERMA

Paying the Price

Aggressive bidding for spectrum will add substantially to the debt burden of telecom companies, forcing them to raise tariffs. By NEVIN JOHN

The stakes have never been higher. Telecom operators' bids for spectrum have crossed ₹1 lakh crore in a matter of 10 days. The bidding was expected to be aggressive. After all, telcos are in the fray to primarily retain the spectrum they already use in different circles. Losing airwaves in service areas where they have a large 2G and 3G consumer base will cost the operators heavily – they will have to exit and sell infrastructure worth about ₹3,000 crore in each area.

Indeed, the whole telecom business is going to change in India after the auction. First, there would be a rise in tariffs without new services on offer. Then, the smaller telcos will have to find a new business model, developing pockets of margins or surrendering spectrum to consolidate. Sivarama Krishnan, Executive Director at PricewaterhouseCoopers, says that the entry of a strong nationwide fourth operator (Mukesh Ambani-controlled Reliance Jio Infocomm) has made the auction highly competitive. "Retaining the spectrum has turned expensive," he says.

The biggest-ever auction of spectrum – across 800, 900, 1,800 and 2,100 MHz bands – started on March 4. The government had estimated ₹80,000 crore to ₹1 lakh crore from the sale. The GSM frequency bands, 900 MHz and 1800 MHz, are the most sought after, followed by the CDMA frequency band of 800 MHz. Bids for telecom spectrum rose marginally to ₹1,02,215 crore at the end of the tenth day of the auction. According to the Department of Telecom, about 87 per cent of the spectrum has been provisionally allocated to bidders at the end of round 61.

The licences of Idea Cellular (nine circles), Bharti Airtel (six circles) and Vodafone and Anil Ambani's Reliance Communications (seven circles each) in 18 service areas are due for renewal this time (the country is divided into 22 circles). But more than anyone else, this auction is crucial for Aditya Birla group's Idea – the company's 900 MHz spectrum in nine circles accounts for a whopping 72 per cent of its revenue. Also, it doesn't have back-up spectrum of 1800 MHz. Airtel had bought

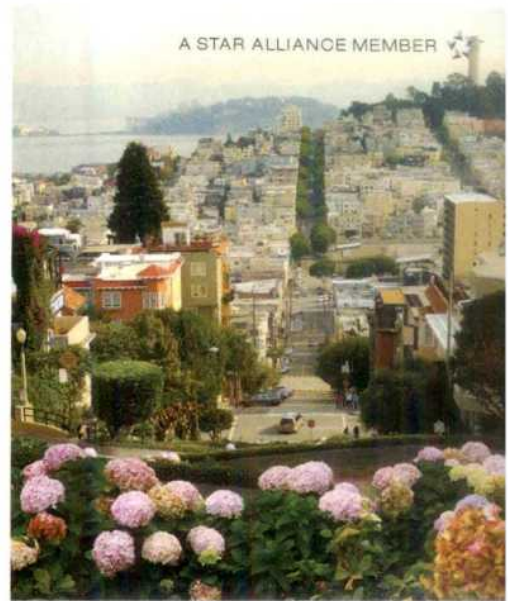
SMALLER TELCOS WILL HAVE TO FIND A NEW BUSINESS MODEL, DEVELOPING POCKETS OF MARGINS OR SURRENDERING SPECTRUM TO CONSOLIDATE



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MORGAN STANLEY SAYS OPERATORS WOULD NEED A 15 PER CENT HIKE IN TARIFFS TO NEUTRALISE THE ADVERSE IMPACT OF AUCTIONS ON PROFITS

back-up air waves (1800 MHz in addition to 900 MHz) during the last round of auction to reduce risk.

Idea generates almost 100 per cent of its EBITDA (earnings before interest, taxes, depreciation, and amortisation) from the nine circles under auction, say analysts. "The telcos design their networks according to the spectrum. If anyone loses their existing spectrum in a circle, they will have to create new infrastructure according to the new band, which is highly capital intensive," says Shobhit Khare, telecom analyst at Motilal Oswal Securities. For instance, in the 900 MHz band, an operator needs 485 towers to cover 1,000 square kilometre while it requires 777 towers in 1800 MHz to cover the same area. "The rural areas are large, where coverage will drastically drop with this change," adds Khare.

The primary concern for telcos is their mounting debt, and soaring spectrum costs will add to their woes. Consider this. Airtel, the largest player, had a consolidated debt of ₹60,542 crore at the end of 2013/14, primarily because of its \$10 billion acquisition of Zain Africa. Reliance Communications (RCom) had ₹41,978 crore debt on its books at the end of the last financial year while Idea Cellular and Vodafone India (standalone) had around ₹20,000 crore each. In fact, RCom's total income (₹25,346 crore) was lower than its debt.

HSBC Securities analysts expect Idea and Airtel to have a budget of ₹22,000 crore for the auctions. Vodafone's budget will be ₹24,000 crore and RCom's ₹6,000 crore, estimates the brokerage. It expects Idea to spend up to ₹18,000 crore on 900 MHz renewals and ₹4,000 crore for adding 3G airwaves in key

A MIXED BAG

The financial condition of the main bidders in the spectrum auction



All figures in ₹ crore; Reliance Industries is the parent of Reliance Jio Infocomm; Source: CMIE Prowess

markets. Sunil Mittal-led Airtel may spend ₹10,000 crore each on 900 MHz renewals and expanding 3G spectrum coverage in Gujarat, Maharashtra, Madhya Pradesh and Delhi. HSBC also expects the operator to set aside an extra ₹2,000 crore for acquiring 2G spectrum in the 1800 MHz band. India's second-largest mobile carrier Vodafone could spend as much as ₹12,500 crore on 900 MHz renewals and up to ₹12,000 crore on 3G airwaves, says the brokerage. RCom may end up "significantly overpaying" for renewing 900 MHz spectrum in existing markets, it adds.

The telcos who retain the spectrum will have to pay 25 or 30 per cent (it is different for different bands) of the bidding amount upfront, while the remainder will be deferred payment spread across 10 years, after a two-year moratorium. But since they plan to make the initial payment through loans, the debt levels will rise and servicing it will become tough. In such a scenario, the companies will see only limited capital for expanding their services.

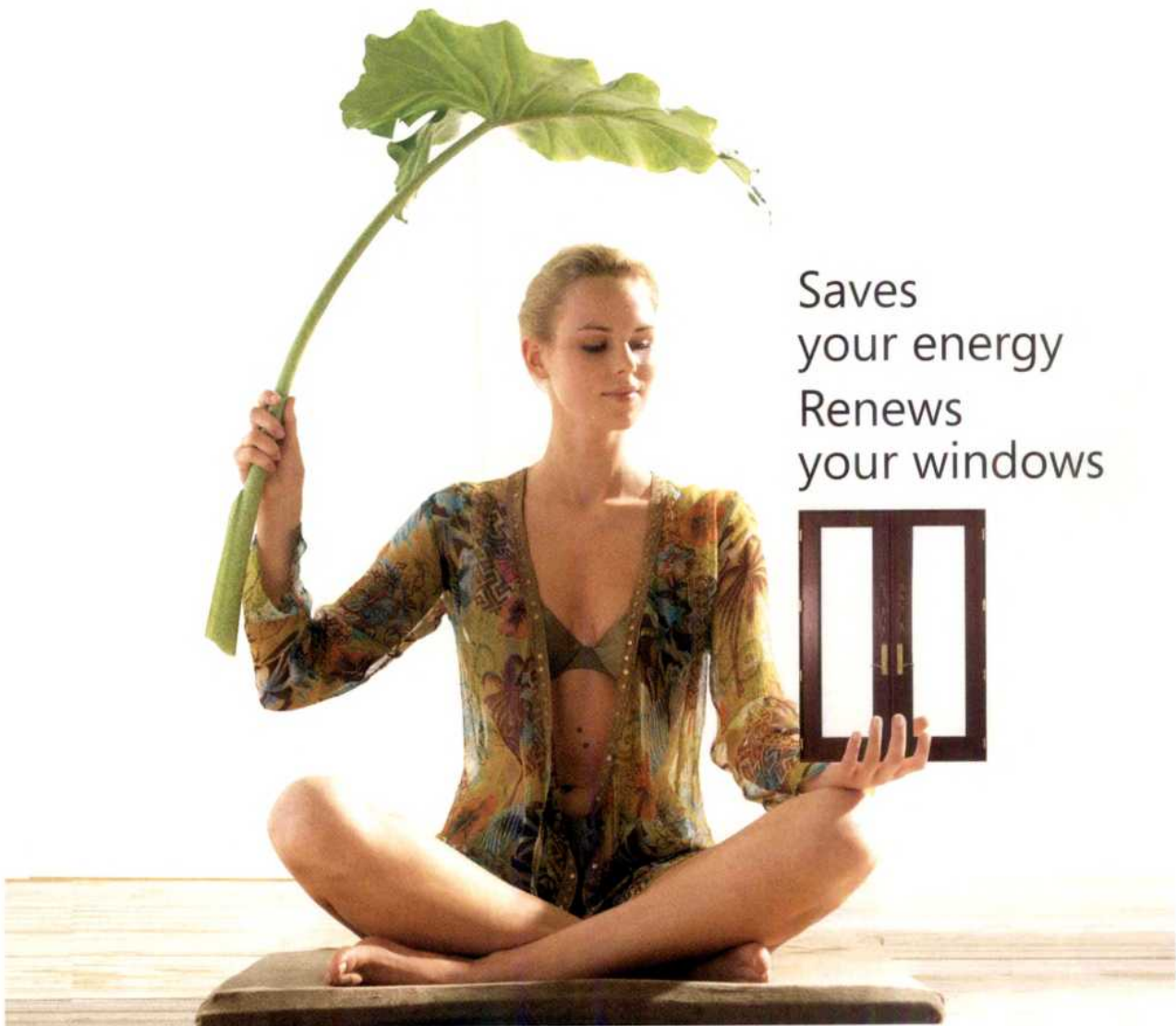
Morgan Stanley recently said in a note that operators would need a 15 per cent hike in tariffs to neutralise the adverse impact of auctions on profits. But it believes that retaining spectrum is positive in the long run. "The spectrum is valid for 20 years and hence, there is a lot more certainty from a business continuity perspective. Data growth is happening at a robust pace, which should aid overall revenue growth for the operators," the note said.

The medium-to long-term outlook, then, appears reassuring for telcos. ♦

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AJAY THAKURI

Unlocking Value

A higher FDI limit will boost valuations of Indian insurance companies and go a long way in meeting their capital needs.

By ANAND ADHIKARI

THE CASCADING EFFECT

How the easing in foreign investment norms will impact the insurance industry

Government estimates capital inflow of ₹25,000 crore

Stake sales to result in price discovery in insurance JVs

FII to enter the insurance sector

Insurance companies to launch IPOs

Indian promoters' stake to go down from a high of 74%

Market leader LIC to face more competition

The much-awaited foreign direct investment (FDI) cap hike in insurance, from 26 to 49 per cent, has set the stage for Indian promoters to unlock value by reducing their equity stakes.

The holding of Indian partners in insurance ventures ranges from 74 to 100 per cent. It put tremendous pressure on these promoters to pump in large amounts of capital as the nascent industry moved from a high-growth to a consolidation phase in the past decade. Insurance is a capital intensive sector. Take ICICI Prudential Life, a subsidiary of ICICI Bank, for example. It has a staggering capital base of ₹4,796 crore, way higher than that of its parent (₹1,158 crore).

Undoubtedly, the foreign joint venture (JV) partners would be the natural buyers of the Indian promoters' stake. The global insurers had inserted a clause in the JV agreements to hike their stake once the government relaxes FDI limits by buying from existing partners or issuance of fresh equity in the market. These deals will take place at the mutually agreed price, which is a combination of book value and fair market value.

Interestingly, foreign institutional investors (FIIs), too, can be included in the composite cap of 49 per cent. "The FIIs have a

greater appetite for investing in long-term insurance businesses as compared to Indian institutional investors," says Aneesh Srivastava, Chief Investment Officer at IDBI Federal Life Insurance Company Ltd. Indeed, FIIs could come in if the FDI player is not too keen to hike its stake from 26 per cent.

Meanwhile, the possibility of initial public offering (IPO) by profitable insurers have increased big time. There are half a dozen companies that have completed the mandatory 10-year operational period to be eligible for an IPO. "The stock market always values a company on forward multiples, which gives a company a better pricing," says an insurer. In fact, the negotiated deals done by insurers for small minority deals will become a starting point for price discovery. HDFC Life, for example, sold around one per cent stake to the Azim Premji Trust, which valued the private insurer at ₹20,000 crore.

HDFC Life is already engaging with its partner Standard Life for an IPO. And if it happens, the private sector insurance industry will have a market benchmark to follow. A higher valuation will allow companies to raise more capital at a premium. ♦

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By HEMANT KANORIA

A Catch-22 Situation for the Power Sector

The ongoing coal auctions have been hugely successful so far, but raise an interesting question. What is our strategy for the power sector? That is because no decision on coal can be seen independent of its impact on our power sector. And, therefore, to understand the impact of the coal auctions, which has already raised ₹2.01 lakh crore from 32 blocks, we need to understand what kind of spin-off effect it will have on the power sector.

While many new power plants have come up in the last few years, several have been existing for many years. Several thousands of crores have been invested in coal-based power plants. Banks, public and private utilities and institutions have high stakes in them.

Electricity is the lifeline of an economy. It is an essential need for the common man in daily life – agriculture is dependent on it, the services sector could come to a standstill without it, and manufacturing cannot happen without power.

If the price of electricity is high, it will fuel inflation,

make things expensive; will render agriculture uneconomical; create uncompetitiveness for the services sector; and manufacturing will be unviable.

Therefore, it is important to ensure that the power sector can generate, transmit and distribute electricity efficiently and economically. It is not rocket science, but needs appropriate planning.

At present, however, there seems to be some confusion. It apparently seems that, as a country, we have got into a vicious cycle, where profit maximisation by auctioning natural resources is the end game. Days are not far when, may be, even water will be auctioned. This is the philosophy of free markets. But free markets need to take into account the development stage of a nation as well.

While we want to create an environment where the *aam aadmi* can live comfortably, we seem to be getting ourselves into a situation where cost of living will actually go up. While we want the Prime Minister's 'Make in India' vision to be a grand success, the input

costs are more likely to go up, which can jeopardise the future of the dream project. The trillion dollar question, therefore, is whether the auction route is aligned to the growth path envisioned for India?

We are a country with 300 billion tonnes of coal reserves, so our clear cut objective should be to produce cheapest power in the world; so that our input cost for agriculture, services and manufacturing is one of the lowest. However, we seem to have made our thinking process so complex that we have actually made it difficult for ourselves to achieve this simple objective.

Auctioning of coal mines is one step that can push up production cost across the economy. While we may be basking in the billions of dollars that we would be making out of the auction, the country may be heading for difficult days as electricity tariff is bound to rise. That, in turn, may make electricity for all a distant goal because the very poor will simply not be able to bear the cost of power. And, it could make industry un-

competitive if they pay more for their power consumption than their rivals in other countries.

The auction was bound to be a big success because of a simple issue. The bidders were caught in a Catch-22 situation because they have already made substantial investments in building power plants and need to keep them operational, and, for that, they need coal. So, they would have to pay whatever it takes, oblivious of the final cost of power, which they will eventually pass on to the consumer.

The simple answer to this seemingly complicated problem would have been to increase coal production and allocate coal to user industries in a transparent manner and not by maximising profits out of the auctions.

I only hope and pray that the government takes logical and transparent steps so that our country does not slip into an unviable and unaffordable economy. It is not late for taking corrective actions for creating an affordable and infrastructurally-strong Bharat. ♦

Hemant Kanoria is Chairman and Managing Director, Srei Infrastructure Finance



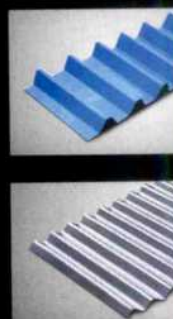
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By AJAY VIR JAKHAR

Floating in the Cloud

Bring the national market down to earth by carrying out small reforms such as setting up farmers' markets

The Economic Survey 2015 has called for the setting up of a national market for agricultural commodities, and Finance Minister Arun Jaitley in his Budget speech reiterated the government's intention to take it forward. This is not a new idea. Earlier, the National Commission on Farmers too had recommended the setting up of a single Indian market so that farm commodities could move unimpeded across the country without necessarily going through the *mandi* route.

But with agriculture being a state subject, how will a national market come about? Which state would willingly relinquish the taxes and revenues it gets from agricultural produce at the *mandis*? Currently, farmers can only sell their produce through auctions at the *mandis*, regulated by Agricultural Produce Market Committees (APMCs), and only to licensed traders.

For instance, if I as a citrus grower from Punjab want to sell my kinnows (a variety of orange) in Delhi, I have to go through a licensed trader at Azadpur *mandi* who will charge

about 10 per cent commission. In a two-minute transaction, the trader gets 10 per cent while my kinnow tree will give a saleable quantity of fruit after five years of hard work. Only a very small part of these charges flow into Delhi government's coffers. (A lot of it also leaks out – there is more theft in agricultural taxes than anywhere else!) A state like Punjab gets an estimated ₹5,000 crore as *mandi* tax alone. Now, will Punjab be ready to sacrifice this revenue?

A national market is a great idea as it will benefit farmers and also bring household food prices down. It will stop revenue leakage. But the only way it can work is if the Centre compensates the states for the revenue losses they will incur for four to five years. Every state government will also have to change its laws to end licensing.

The national market to my mind is one where a single licence will work at every *mandi*, and where there is freedom to buy anything from anywhere without having to pay commission at multiple places. Currently, if a trader in Vijayawada wants to pro-

cure kinnows from Punjab, he needs to get a licence from every *mandi* he goes to and the licence has to be renewed every single year. As the Economic Survey points out, India has thousands of *mandis*, each levying a different tax ranging from eight to 14 per cent, creating a supply chain nightmare. The APMC Act does need reform.

But is disbanding APMCs the answer? In Bihar, which repealed its APMC Act in 2006, it has made no difference to the prices the farmer gets. Physical market spaces for farmers to sell produce will be needed at places where they don't exist.

To me, the national market is currently an idea in the cloud. To bring it down to earth, you need to carry out small measures. You can start by setting up farmers' markets in every urban locality, on the model of those in cities like London. All you need is to give parking space, and permission to park small vehicles. Five or six farmers will get together, put their produce in small pick-up vehicles and bring it to an urban locality on designated days. The consumer

can just walk out of her home and pick up the produce. As a farmer, the closer connect with the consumer will help me to custom grow for the market as I begin sensing what the needs of the market are.

Narendra Modi has been talking about an urban rejuvenation project – why not make setting up a farmers' market in every pocket a condition for the project? A farmers' market will increase the connect points between farmers and consumers, thereby providing competition to retailers, middlemen and aggregators in the supply chain.

The Procurement Puzzle

I am not advocating eliminating middlemen. As part of a farmers' organisation, I think middlemen aggregate produce from farmers and are required in the system as they have an important function. Let's take a small farmer who has half an acre of land. It is not viable for him to go to a market to sell the produce because the cost of transporting the produce is more than that of the produce. He definitely needs an aggregator. But we need to reduce the mid-

dleman's margins and his price manipulation by better enforced regulation and increasing his competition. A farmers' market would do just that by bringing about a collective model of distribution.

There are many who think FDI in multi-brand retail will also open up farm gate prices directly to consumers. But what worries me about FDI in multi-brand retail is that it may open up the floodgates of imports of fruits and vegetables rather than benefit the local farmer.

Agricultural economists are proposing to control food inflation by importing fruits and vegetables. With commodity prices falling all over the world, there is demand for India to open up its markets. The items likely to be imported will be in the category of higher value products – they are not shiploads of grains. And the reality is that with domestic transportation costs so high, it is cheaper for a modern retail outlet in, say Chennai, to source apples from Chennai than from Kashmir. Despite the dip in diesel prices, there has been as much as 20 per cent rise in transportation costs.

I am not averse to FDI in multi-brand retail, but make it a condition that 75 per cent of the produce sold at these outlets should be sourced from local farmers. When there is such a condition for sourcing from small and medium enterprises, why not from small farmers as well? Let "Make in India" start from the farm.

There is talk that multi-brand retail will bring down inflation. But as a farmer what worries me is deflation. We have the capability to grow much, but the worry is that there will not be any buyers for it. The counter to this from the government is that food processing will increase and we will find a market for our produce there. But if you look at the numbers, even as demand for processed food has increased, and the quantity of processed food has also increased, the rate of growth of the food processing industry has been slowing for much of the last three decades. This is because there is lack of varieties suitable for processing.

Research has failed this nation. It has to be market oriented, and help farmers grow produce that can be processed. Take the kinnow I grow. It cannot be processed. In the last 50 years the government has not come up with any good hybrid alternatives that have caught the farmers' fancy or are commercially viable. If there was a better variety of a particular fruit or vegetable then processors would come. Table top varieties that we like and buy may not be the best for processing. There is a difference. For food processors, the national market is again a great place to procure from, as it gives them more choice.

The other suggestion from agricultural economists to make procurement easier is to do away

with the Food Corporation of India (FCI) and the concept of minimum support price (MSP). The Shanta Kumar committee has also recommended this. We know the present system has major flaws. But rather than do away with it completely let's first roll out an acceptable alternative. Doing away with MSP is not a solution. What do you do after you remove it? I would suggest you retain MSP and go in for price insurance simultaneously.

need to get private sector even into grain procurement. I think the government has been sold a rotten apple and doesn't know it yet.

Consumers are not yet ready to pay a premium for food stored in proper cold chains so even cold chains are not rolling out as expected. The government is also experimenting with food parks to give incentives to farmers. But it can only be one of the pieces needed to solve the pro-



Azadpur mandi in Delhi: High volume sales but high intermediary costs

Let's begin by changing the mindset. If, for example, the MSP for a particular grain is ₹1,300 but the farmer gets just ₹1,100 in the open market, let him sell it there, but let the government pay the ₹200 difference rather than clog its godowns. It would be a deficient pricing model. Let's not dismantle FCI either, but instead allow the private sector to compete with FCI for government procurement, storage and distribution. Let's focus on those areas less worked upon till date. Yes, you

curement puzzle. Is this food park a game-changer? No, it is not.

The other pieces in the puzzle are to incentivise collective farming, and a cooperative model of distribution such as farmers' markets. There are no game-changing moves, unfortunately, to reform our agriculture produce procurement. But there are lots of small things that can be done to make the farmer smile again. Good intentions can translate to good results. It's not going to be easy, but it can be done. ♦

Ajay Vir Jakhhar is a farmer and Chairman of Bharat Krishak Samaj, an organisation that represents farmers' interests



India is the cheapest country to live in globally, mainly due to a weak currency, shows The Cost of Living Index for 2014 by the Economist Intelligence Unit. But there are still many products that are more expensive in India as compared to the developed world

Illustrations by: **Raj Verma**

Research by: **Jyotindra Dubey**

1. To rent office space in New Delhi you end up paying 5% more than in New York and 33% more than in Shanghai

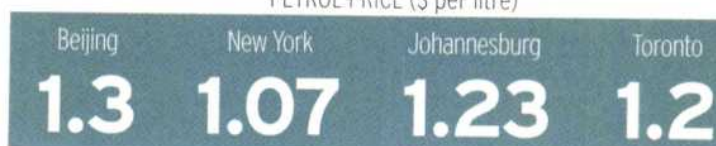
AVERAGE OFFICE RENTAL (\$ per square foot)



Source: Mapping the World's Prices 2014 (a report by Deutsche Bank)

2. A litre of petrol in Mumbai costs 21% more than in New York. This is mainly because of the high taxes in India, such as value added tax and excise duty

PETROL PRICE (\$ per litre)



Source: Mapping the World's Prices 2014



3. Cars are cheaper in India, right? Not necessarily. An Audi A4 in India will cost double the price in the US because of high custom and excise duties



AUDI A4 PRICE (\$)

BASE MODEL	TOP MODEL
US	
35,500	49,800
China	
44,490	94,282
India	
61,924	100,937
UK	
43,255	61,147

Source: Cartrade.com, Carwow.com, chinaautoweb.com



5. An Apple iPhone, seen as a status symbol, costs more in India. For instance, its 5S model in India is expensive as compared to the developed markets such as the US and Japan. The reason: the phone attracts various taxes as it is imported into India

Source: Mapping the World's Prices 2014

6. Even a pair of imported Adidas Super Star 2 shoes is dearer in India, again because of high duties

ADIDAS SUPER STAR 2 - SPORT SHOES (\$)



Singapore 99

United States 75

Hong Kong 89



Source: Mapping the World's Prices 2014

4. TVs cost a bomb in India. Indeed, Indian tourists till recently preferred to buy TV sets on their visit to Dubai, Bangkok and Singapore. But a cap on cumulative purchases abroad above ₹35,000 has almost put an end to the practice. Consider this. A full HD 40-inch Samsung Smart TV in India costs more than double its price in the US and the UK because of higher taxes



CONCLUSION: High taxes play spoilsport in India, making several products prohibitively expensive in the country, particularly imported ones. This is largely because of no free-trade agreements with the US and the EU. Consequently, imports from these two blocs - from where a bulk of our imports (barring crude oil) originate - attract high custom duties

WHAT'S TRENDING

Social Inside the Store

At retail stores in North America, the offline and online worlds are colliding as storekeepers install screens, electronic shelf labels and magic mirrors that let shoppers connect with social networks as they browse the store. By **CHITRA NARAYANAN**

Walk into the Edmonton store of Sport Chek, Canada's largest sports retailing chain, and you will see 800 screens with 220 channels worth of product images and deals. There are also treadmills fitted with special technology – when shoppers walk on it, their correct sneaker size pops up – and community walls broadcasting local sports information.

"Let's get phygital in the stores," says Frederick Lecoq, SVP of Marketing at EGL Sports Ltd, which runs Sport Chek. Lecoq was speaking at the Adobe Summit at Salt Lake City in the US, where he shared how Sport Chek's new strategy of marrying physical with digital has led to "the Edmonton store now posting 50



JASON GOLDBERG
GVP, Commerce Strategy,
Razorfish

"E-commerce stores have shown that adding ratings and reviews can double the conversion of an item"

per cent sales growth".

At the stores of upscale American fashion retailer Nordstrom, a unique social engagement is to use Pinterest fan base to identify popular products and pin them up. The "most pinned products" are then quickly displayed on a table in the shop with special signage, garnering interest from shoppers. Nordstrom is using what Jason Goldberg, GVP, Commerce Strategy, at digital agency Razorfish, calls "social proof" to induce shoppers to buy an item.

E-commerce stores have shown that adding ratings and reviews can double the conversion of an item, says Goldberg. Now these ratings and reviews are entering physical stores in interesting ways, providing "social proof".

When a customer likes an outfit, for instance, the salesperson can use his/her tablet to put the outfit on a

large screen on the wall and at once ratings and reviews from people who have bought the outfit are played out alongside with pictures from Instagram. "As opposed to static content, it's pulling all that social proof from the cloud," says Goldberg, who describes how co-shopping – collaboration between the salesperson, the shopper and the extended network outside of the shop – is now the new way of shopping in physical stores.

Razorfish has done co-shopping solutions for AT&T, Audi and a host of other retailers in North America. From electronic shelf labels to screens where customers can chat with their social networks to beacons, he describes how an increasing number of retailers are now turning to technological tools to boost shopper engagement.

Since the day Burberry used magic mirrors inside the dressing room that could tell shoppers what accessories they could buy with the product they were trying on, digital

DIGITAL DASHBOARD

CAN WEARABLES BOOST LIFE EXPECTANCY?

Twelve per cent of consumers surveyed by Ericsson already use wearables, while twice the number expressed interest in doing so, as they feel monitoring and regulating their health using devices could add years to their life

Wearables that monitor, regulate stress levels



2.0

Wearables that monitor, regulate physical activity



1.9

Cups, plates that measure intake of calories, salt, etc.



1.8

Cups, plates that identify food allergens



1.3

Base: 5,024 iPhone/Android smartphone users in Johannesburg, London, Mexico City, Moscow, New York, San Francisco, São Paulo, Shanghai, Sydney, and Tokyo



A demo of a store with a connected screen

in the showroom has come a long way. A host of tools is now invading the physical stores.

"Shifting our mindset from transaction to creating engagement is important," says Adam Silverman, Principal Analyst, Forrester Research, explaining why this is happening.

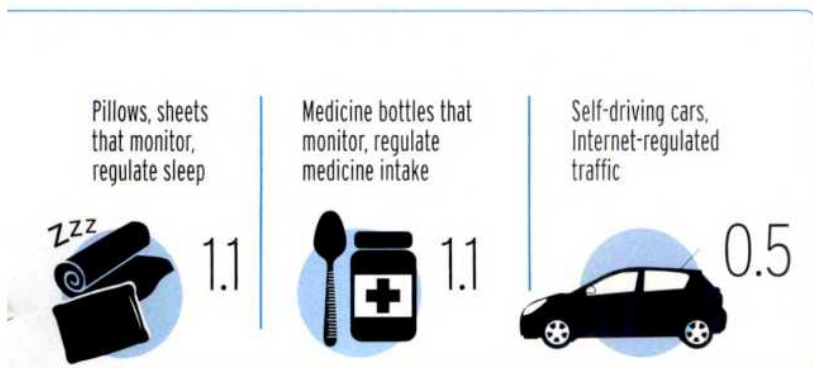
"Fifty-two per cent of store sales are influenced online. Customers are at home doing pre-shopping. That is causing some change in how customers shop in stores. It's leading to reduction in traffic in stores," says Silverman. But this reduction is what has forced stores like Sport Chek and Nordstrom to boldly experiment with tech inside the stores.

Silverman describes how smart retailers are using beacons inside the stores to push real-time alerts to

shoppers. Going forward, he envisages a scenario where if a shopper stops in front of a product and then moves on without buying, a discount deal for the product immediately pops up on her mobile phone. "Dynamic pricing will happen at retail level, perhaps even at customer level," he says. Right now, beacons are being used to push offers, soon they will be used to push services too, he forecasts.

Physical stores are moving into real-time operations. If e-commerce took the lead in using social engagement and augmented reality to boost sales, the physical stores are now going digital to lure back the customer traffic. For customers, the shopping experience is only going to get better and better. ♦

@ndcnn



Figures are expected increase in lifespan in years; Source: Ericsson ConsumerLab Analytical Platform, 2014



Interview with Jason Goldberg at business.today.in/razorfish-goldberg

LISTENING POST

Snapping Snapchat



Facebook tried to gobble up Snapchat two years ago, but it is Chinese e-tail giant Alibaba that is taking a nibble at the messaging service. Alibaba is reportedly investing \$200 million in Snapchat, which puts the valuation of the photo messaging app popular with kids at \$15 billion. That's five times more than Facebook's offer, and shows Snapchat CEO Evan Spiegel was wise in holding on. Why is Alibaba investing in Snapchat? Analysts feel Snapchat's newly launched Discover platform that opens it up to big advertising revenues could be a good enough reason.

Pin it up Brands!



For brands that have been ignoring Pinterest, this should come as an eye-opener. According to Kevin Knight, Head of Agency and Brand Strategy at Pinterest, two-thirds of what people pin on the site comes from businesses. Even if brands are not present on the visual discovery platform, their content already is, said Knight at digital marketing conference Adobe Summit. How can brands maximise their impact on the site? By pinning useful content. Putting some personality into the pin by using text overlays is another tactic.

Streaming Sensation



Meerkat, a social live streaming app launched two weeks ago, has created a flutter as attendees at two big conferences in the US used it to send live video feed from their phone cameras. When you begin a video feed, the app sends a tweet alerting your followers. Meerkat has stolen Twitter's thunder as the microblogging site was due to launch its live streaming service Periscope. There are concerns about voyeurism, though.

INTERVIEW Muhammad Yunus



PHOTOGRAPHS BY VIVAN MEHRA

Muhammad Yunus, the founder of Grameen Bank and a proponent of 'social business', a not-for-profit business model to combat unemployment and other social evils, does not mince his words when it comes to micro-credit for the poor. The Nobel Peace Prize winner is dismissive about some recent innovations in the microfinance sector and warns about the direction they are taking. He also believes that micro-credit should be kept outside political influence to run it as a sound financial institution. "The best scenario," he says, "is when a micro-credit bank is owned by the poor." Excerpts from an interview with Shamni Pande:

"You Need a Banking Law to Create a Bank for the Poor"

You started BOP, or the micro-credit revolution. How has it evolved over the years?

I must clarify. We do not use the term 'bottom of the pyramid,' or BOP, as it is being used by certain groups that see it as a market opportunity. This gives a wrong impression about micro-credit. We, on the other hand, see it as an opportunity to get people out of poverty. Our effort has been to fight loan sharks in the village, bring financial services to the poor, especially women, so that they can start generating income. Today, the initiative through Grameen Bank has spread across Bangladesh. It lends to 8.5 million borrowers (of which, 97 per cent are women) and the Bank is owned by these borrowers. It has lent over \$1.5 billion and the money

comes from within its own system. It does not take money from the government.

The idea of micro-credit has spread across many countries. But, there have been certain pain points. People are misusing the concept of micro-credit. They are using it to make money for themselves, rather than using it as an opportunity to help people to come out of poverty. That is not micro-credit. Some of it happened in India about four years ago, mostly in Andhra Pradesh, where people wanted to make money for themselves by floating IPOs. Of course, the RBI stepped in and the problem is now resolved. But a legislation is still pending in India on micro-credit. I feel it is a good thing that it has not been passed, as it is not a good legislation to begin with. For

instance, the legislation should allow micro-credit banks to be created. It would allow them to take deposits and lend, and will not remain dependent on donors. Commercial banks will not take up micro-credit in a big way. They will always do it in a small way, as a token (activity).

But don't you see encouraging signals here? The government is encouraging banks to operate in the micro-credit segment. Bandhan has got a banking licence. Many micro-credit players, such as SKS and Vikram Akula, are also applying for licence?

No, this is not in the right direction. Akula's initiative was wrong to begin with. And Bandhan, too, is taking a

conventional banking licence. This would require a lot of investments and requirements, such as hiring experts to run a bank. When you do that, you are hiring the wrong kind

How does one deal with the political system? You have had to deal with it back home, and, here too, there was a view that certain politi-

anywhere. At the same time, if you let microfinance function on its own, SKS-type of things happen, charging higher interest rates and harming the motive of micro-credit.

“Politicians come in when the money starts coming in”

of people for micro-credit. It's a wrong start. In my view, one should start a micro-credit bank with a mandate that it would appoint a CEO who has at least a decade's experience in micro-credit. Experience in commercial banking is useless. In fact, it will be counter-productive. There should be a separate law to create micro-credit banks. Existing laws allow the creation of banks for the rich. You need a banking law to create a bank for the poor. These are two different things.

Once there is a micro-credit bank, it will need an independent regulatory authority. Existing banking authorities cannot do the job. They look after banking for the rich and know how they need to behave. How will they know about how banks for the poor should behave.

The Micro Finance Institution Network has taken several self-regulatory measures. Where is the problem?

It is a good step, but a small step. It does not solve the problem of sourcing of funds to lend. Self-regulation would mean, 'we shall not do this, and not do that'. It sounds good and they have good intentions as well, but, in reality, it is not effective. This is so, because some of them are leaders in the micro finance industry. Therefore, who will go and tell them if something is wrong.



cians felt threatened with the growth of micro-credit and came down heavily on the industry in Andhra Pradesh.

It is good to keep micro-credit at a distance from political influences. Because when politics gets in, financial soundness starts eroding. For instance, every politician will say, keep interest rates very low. It is a popular thing to say. The poor cannot pay. So, they will question the industry for charging them for credit and ask for an interest-free loan. This is the direction politics takes you in. But the reality is that it is something that has to cover costs, otherwise you'll not get

So, its a catch-22 situation?

No, it is not. You can define it well. The way the RBI has done, for instance, by putting a cap on interest rates. That solves the problem. There are ways, as long as you are running it properly and a regulatory authority is there. Politicians come in when the money starts coming in, more so, when the state's money is coming in and institutions depend on it. Then microfinance companies will have to play to their tune. But if they can generate their own money, then politicians will not be able to come in. Micro-credit should be kept outside political influences, to run it as a sound financial institution. The best scenario is when a micro-credit bank is owned by the poor, like Grameen Bank. That way all the ownership and exploitation issues disappear.

So there is need for a robust institution that does not allow outside influence, and India is far from having such an institution?

Yes. The legislation should allow for such a structure in India.

Why haven't you expanded beyond Bangladesh with the Grameen Bank model?

Despite several invitations, we de-



Full interview with Muhammad Yunus at
businessstoday.in/grameenbank-yunus

cided not to go to other countries. Locals should do it and there is enormous creative power in every region and a variety of programmes can be introduced. We have taken small steps to merely showcase how it can be done. The local organisations remain independent.

What has been your involvement in India?

Virtually every major person running micro-credit here started out either as a visitor or a student and got interested, or have worked with us at some point. Even Vikram Akula came to Grameen Bank and was really excited about it. He came here and created his for-profit company and that's when things started falling apart. He told shareholders that they can make money by lending to the poor. That is a wrong message. He should not have done that.

We are not in the micro-credit space in India, but we are active in social business. I was very excited when I first heard about the CSR (corporate social responsibility) legislation. It could transform the Indian situation as it would allow social business to take CSR financing. But I just learnt that while the draft of the law had included social business as a subject for investment, in the final law it disappeared. So, social business is not eligible to receive finance from CSR money. It is possible for the government to add it at a later stage.

What exactly do you mean by social business?

I am talking about businesses that are created to solve people's problems, but on the condition that no one will



take profit for themselves. Our social business, at the level of the company, does not give dividend to its investors, but returns the principal back. Yunus Social Business is headquartered in Frankfurt and through it we have businesses in seven countries, including India. We have local people, local money to run, identify and manage the work. Some (donors) are individuals, others are foundations. We came to India three years ago and, so far, Yunus Social Business Fund, Mumbai, has invested in seven businesses. We give debt at three to four per cent interest per annum. That keeps me busy and keeps me excited.

People are excited about the exits in the impact investment space because, they say, it encourages more money to flow in. What is your view?

There is a whole range of it and some of it is good. We place ourselves where there is zero personal profit, but the company makes profit. When

the profit motive is there, the logic of that motive automatically blinds you to many opportunities that require funding. Also, it is difficult for me to make a statement about others, as I do not know what microfinance means to them. We have defined it as a small loan given to the poor, particularly women, to generate income, without any collateral, and to get them out of poverty. However, there are some that are taking collateral, others give money to buy consumer goods... and they call it microfinance. I do not know what is their reference.

So, is the microfinance space in India getting muddled?

Not just in India, everywhere in the world. It is getting confused. Within microfinance, there is right micro-credit and wrong micro-credit. We have to draw a line. Anything that does not fit into my definition, I call it wrong micro-credit. ♦

@ShamniPande

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LOAN LARGESSE

Banks are changing their strategies. Retail lending, which shrank following the downturn, is growing again. By **MAHESH NAYAK**

₹10,38,552
CRORE
Retail loans outstanding
as on March 2014

₹24,857
CRORE
Credit card loan
outstanding as on March 2014



₹5,42,317
CRORE
Home loan outstanding as
on March 2014*

₹60,015
CRORE
Education loan
outstanding as on
March 2014

₹1,30,117
CRORE
Auto loan outstanding
as on March 2014

*Including priority sector housing



Home loan customers of Axis Bank who, for a substantial period, had paid every one of their equated monthly installments (EMIs) on time, had a pleasant surprise in 2013/14 – the bank would waive their final year's EMIs. For a limited period at the beginning of calendar year 2015, HDFC offered personal loans at an interest rate 400 basis points lower than it usually does to account holders whose salary cheques were paid into these accounts.

For two months – December 2014 and January 2015 – Bank of Maharashtra offered customers 'combo loans' – home loan and car loan combined – at 10.25 per cent interest, though the rate for standalone car loans is 11 per cent. It has also abolished all pre-closure charges on loans, which are as high as three to 10 per cent at many other banks. "We are doing it to grow the retail book and boost credit off-take," says

R.K. Gupta, Executive Director.

The persisting downturn since late 2008 has been hard on many sectors, particularly the banking industry, which found the number of its defaulters and size of its non-performing assets steadily increasing. Accordingly, it chose caution over profitability, growing much more discriminating with all kinds of loans, especially retail loans – housing, vehicle, personal, consumer durables – as well as in issuing credit cards.

Among retail loans, the unsecured segment – personal and consumer durable loans and credit cards – took the worst beating. In 2007/08, for instance, Axis Bank's unsecured loans comprised 21 per cent of its total loan book; by 2013/14, it was down to 10 per cent. Overall, Axis Bank's retail loan book shrank from 39 per cent of total loans to 32 per cent in the same period, while for ICICI Bank the reduction was even greater, from 58 per cent to 39 per cent.

Correspondingly, the share of secured, housing loans in banks' retail loan portfolios increased. ICICI Bank's housing loan segment, for instance, rose to 55 per cent of total retail loans in 2014/15 (till September 2014) against 50 per cent in 2007/08. But housing loans, given the intense competition, provide increasingly thin margins. In contrast, unsecured



Going digital: An SBI InTouch digital branch at Kurla, Mumbai. SBI is focusing on digitisation to lure consumers

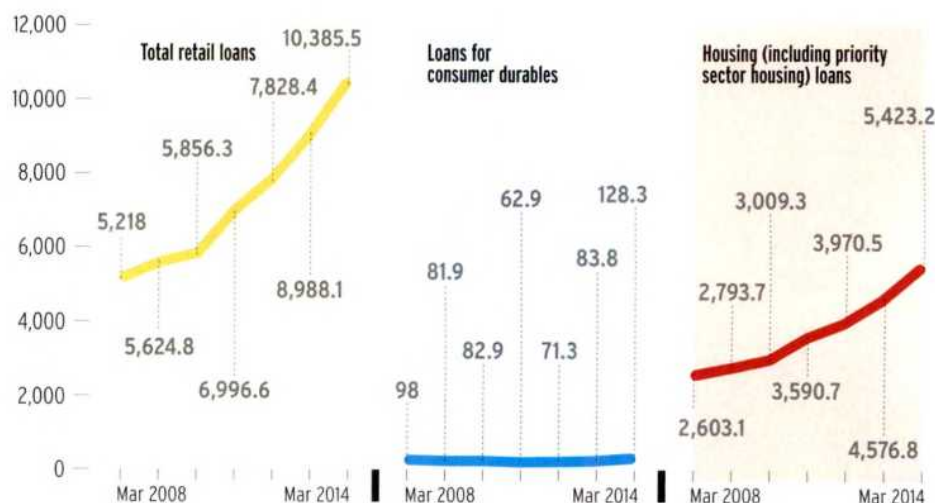
personal loans, though a small segment, are extremely profitable.

With the economic climate improving a shade or two, banks have decided to become a little more adventurous, even wooing new retail business. The three instances cited earlier are clear evidence.

Changing Mix

Growth in total retail loans has picked up after slowing in 2009 to 2011. While certain segments such as credit card loans have remained stagnant, some other categories like housing loans have grown steadily

Amount in ₹ billion; Source: RBI





RACHIT GOSWAMI

Banking on Change

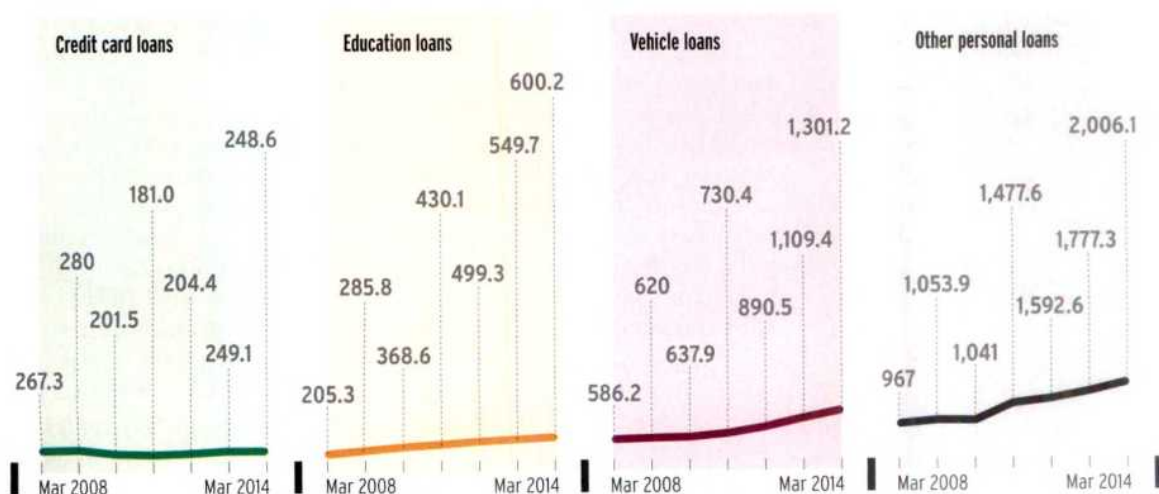
A number of banks are once again actively seeking borrowers in untapped areas, the way they used to before the downturn. Very small enterprises, small businesses such as kirana shops, standalone restaurants, standalone medical clinics, etc. are all

on their radar. Some are also increasing their focus on agricultural loans. A few, such as State Bank of India (SBI), are growing their exposure to vehicle loans as well, though market conditions remain a dampener. Many have abandoned their former antipathy to personal loans and fresh credit

cards. SBI salespeople, for instance, can be found at strategic points in Mumbai offering free credit cards – though only to those who already possess one.

The credit card business bottomed out in August-September 2012. Total business size fell from ₹26,700 crore in 2007/08 to ₹18,000 crore around that period, but has since seen a small recovery, reaching around ₹24,860 crore in 2013/14. Personal loans had practically stopped following the downturn, but were restarted by a few banks in 2011, with a larger number following suit in 2013 and 2014. Axis Bank's personal loan book, for instance, was 14 per cent of its total loan portfolio in 2010/11, fell further to six per cent the following year, but has inched up to eight per cent in 2013/14. Similarly, ICICI Bank's personal loan component of total loans crashed from 17 per cent in 2007/08 to 5.5 per cent in 2013/14, but in the first six months of 2014/15 has risen to 6.2 per cent.

However, banks are moving very carefully. "Our key learning during the crisis was that there had been risk management breaches," says Vijayalakshmi Iyer, Chairperson and Managing Director, Bank of India. "We have learnt many lessons as to where the slippages occurred on the part of the bank and tightened con-





"We have learnt many lessons as to where the slippages occurred on the part of the bank and tightened control in those areas at the origination stage itself"

VIJAYALAKSHMI IYER,
CMD, Bank of India



"In good times the unsecured business makes huge amounts of money, but in bad times it could lose you huge amounts as well. It's a feasting and fasting business"

JAIRAM SRIDHARAN,
President (Retail Lending and Payments), Axis Bank



"Banks which have a good CASA ratio, a low operational expenditure to income ratio, and a high NIM will be best equipped to handle the situation"

RAJIV SABHARWAL,
Executive Director, ICICI Bank

trol in those areas at the origination stage itself." This has led to a number of changes – for one, the growing importance given by banks to credit bureaus which collate information on borrowers' repayment patterns.

Credit bureaus did not exist in India till 2005, but today most banks use their services to evaluate consumer credit quality before sanctioning loans. First time loan takers, as well as already leveraged borrowers, are, in particular, scrutinised very carefully. Similarly, the use of data analytics and risk prediction models has increased while deciding which loan applicants to accept or reject, how much to lend and at what rate.

For a third, unsecured loans are being given largely to account holders only. Before the downturn, about half of those Axis Bank gave personal loans too were from this category, today it is 80 per cent. Since 2009, it has also restricted credit cards to its existing customers only. "The profitability of the unsecured loans business was never in question," says

Jairam Sridharan, President (Retail Lending and Payments), Axis Bank. "The problem is that in good times it makes huge amounts of money, but in bad times it could lose you huge amounts as well. It's a feasting and fasting business." Many others have also imposed similar curbs. "We are not getting into unsecured loans unless the salary account is with us or the corporate house the borrower works for gives a guarantee," adds Bank of India's Iyer.

Finally, direct sales agents (DSAs) – those who seek out borrowers on behalf of banks – are no longer in favour. Many have had their services dispensed with. "The role of the DSA as an acquisition channel has reduced in the past few years," says Sridharan of Axis Bank. With the downturn squeeze, banks found DSAs' commissions expensive and their presence risky, since part of the process of acquiring the customer is under the DSA's control. "We still use DSAs for products such as home loans or loans against property, but have

chosen not to use them for products like credit cards," adds Sridharan.

In the housing loans segment, banks are being unwittingly helped by developers, who have floated attractive offers to overcome the long-drawn slackness of the housing market. While banks' housing loan rates are around 10.25-10.5 per cent, developers like Dosti Group or Tata Housing are providing buyers in Mumbai loans at eight per cent, effectively paying the difference themselves to the banks. Rather than allow property prices to fall further – there has already been a 15 per cent drop in Mumbai's prices, according to builders – they prefer to give a discount on the loan interest rate.

Another developer, Neptune Group, at its housing project in Mumbai's northeastern suburb of Bhandup, is offering buyers possession on paying just 50 per cent of an apartment's price, with the rest payable in 36 EMIs. Various other permutations and combinations of loan repayment are being offered by other

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The Outlier: How HDFC Bank Stayed the Course



Unlike most other banks, HDFC Bank saw no reason to reorient its strategy following the 2008 downturn. That is because it had already implemented most of the practices the others were forced to follow due to the crisis.

HDFC moved out of the small ticket personal loan (STPL) segment in 2007. "We did a pilot study in early 2007 and saw that STPL was a ticking time bomb," says Paresh Sukthankar, Deputy Managing Director. "We decided we would not do STPL. Soon after that we were proved right."

It was the same with bigger personal loans and credit cards. 'Know Your Customer' was de rigeur at HDFC Bank well before it became standard practice across banks. It acquainted itself with the borrower's complete credit history. Only bank account holders were given credit cards or personal loans. Thus while its rivals have been compelled to clamp down on this segment, unsecured loans still account for 25 per cent of HDFC Bank's retail loan book. Advances on credit cards were nine per cent of total retail advances in September 2014 against 7.5 per cent in the same month a year ago.

Another early decision was to rely as much as possible on in-house talent in every area, rather than outsource work to DSAs or others. "This was the biggest differentiator for growing our retail business," says Parag Rao, Senior Executive Vice President. "Three-fourths of our business today, as well as our incremental business, is handled in house. All our systems and core operations are in-house. We wanted it this way to deliver a superior experience to our customers and it has paid off."

builders, all trying to make housing loans more attractive. "It's a buyer's market," says Sunil Rohokale, CEO and Managing Director, ASK Group. "Developers are offering goodies because they are stuck with inventories of up to 60 months."

Finally, gold loans have lost their sheen. With gold as collateral, they seemed a reliable alternative to unsecured loans in the years immediately after the downturn, but with gold prices falling from ₹35,074 per 10 gm in August 2013 to ₹25,420 in December 2014 (the current price is ₹26,430) put paid to that. Banks' interest in personal loans began reviving around the same time.

Wooing the Young

Banks are aware that, given the country's demography, the bulk of customers in coming years will be

from among the upwardly mobile, tech savvy young. Accordingly, to win their attention – as also to improve operational efficiency – they are all making a big push for increased digitisation, installing state-of-the-art technology. The big private banks, such as ICICI Bank or HDFC Bank, are already heavily digitised, but the public sector ones too are catching up.

Nowhere is this more evident than at SBI's 'InTouch' branch at the Phoenix Market City Mall in Kurla, Mumbai. This digital branch, one of seven such SBI has so far opened across India – two in Bangalore, the others in Delhi, Chennai, Kolkata, Ahmedabad and Mumbai – is manned by just four people. The entire process of opening an account at these branches takes barely 10 to 15 minutes. At the appropriate kiosk –

one of the first of its kind in Asia – the prospective customer feeds her photo identity card and address proof into a computer which promptly scans them, takes her photograph with a webcam and shortly afterwards spits out a debit card, complete with her name and photograph on it.

Another kiosk accepts cash, without even having to segregate the notes according to their denominations, instantly displaying the amount deposited on a screen. "This is safe as well as convenient. The amount gets deposited in our account within minutes," says Eddy D'Souza, Store Manager at French retailer Celio's outlet in the same mall. There are still more kiosks where customers can shop for home or auto loans and investment products without ever having to talk to any bank official. "The target is to attract Gen Y as it has an appetite to spend more than to save," says B. Sriram, MD and Group Executive, National Banking, SBI.

Two features of the economy are critical to retail banking – employment and real estate prices. Large-scale job losses or a housing market crash can create havoc. Banks have become bolder because neither of these appears likely in the foreseeable future. Other aspects – such as the GDP growth rate – do not affect credit risk. No doubt, there is growth risk and profitability risk as well. The latter is highest in the home loan segment due to growing competition. Banks are confident of the future but are not going overboard.

"When every bank is doing the same thing, the ability to remain competitive is the key to success," says Rajiv Sabharwal, Executive Director, ICICI Bank. "Banks which have a good CASA (current account and savings account) ratio, a low operational expenditure to income ratio, and a high NIM (net interest margin) will be best equipped to handle the situation." ♦

RESEARCH INPUTS BY NITI KIRAN

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A HIGH-WIRE ACT

Behind the dense fog of political and bureaucratic obfuscation is a start-up working to create the tech backbone for GST. The challenge is to meet the April 2016 deadline. By GOUTAM DAS



As you walk into the 10-room 'office space' of Goods and Services Tax Network (GSTN) at Central Delhi's Janpath Hotel, there's a sense of restrained urgency. The two-year-old company and its 15-odd employees are on the same page with the high-level picture – to provide the technology backbone to India's most ambitious indirect tax reforms. By the year-end, GSTN plans to scale up its employee count to 70 and move to a new plush office in Aerocity, next to the Indira Gandhi International Airport.

On April 1, 2016, GST is expected to go live. By then, GSTN will have to complete the process of convincing IT companies to participate in a competitive bidding process, float tenders,

pick system integrators who can do the job, and guide the 36 states and Union Territories to build the necessary infrastructure. Finally, it has to ensure smooth execution of plans so that businesses are prepared for the roll out of the uniform indirect tax regime that would replace multiple central and state taxes on goods with a single tax to create a unified national market.

However, barely 12 months away from the deadline, the company is yet to finalise its business model that would make the project viable – financially and otherwise. But, even before GSTN goes the whole hog, the challenges are multi-pronged, punctuated by political, bureaucratic and administrative hurdles.

The GST bill (The Constitution

(One Hundred and Twenty-Second Amendment) Bill, 2014), which was tabled before the Lok Sabha in December 2014, has to be first passed by Parliament and ratified by 50 per cent of state assemblies. Only then can the GST Council be formed to draft the law and place it in public domain for feedback. The Centre and states will then have to pass the GST Bill and enact the law.

Says Pratik Jain, Partner, Indirect Tax, KPMG India: "If the Bill is passed in the Budget session, it can still be done." Bipin Sapra, Tax Partner, EY, agrees, adding that the industry would ideally need six months to prepare and implement the changes to their systems and supply chain.

A delayed legislation will subsequently delay the IT backbone work, too. GSTN is currently designing the

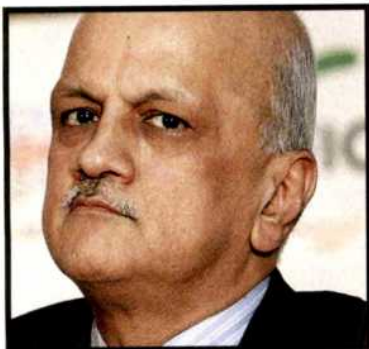


IT backbone based on draft processes. If the government is required to change even a few of those processes – for instance, if there is a different set of services that will be taxed or exempted – the company will have to change the system accordingly. That will cost both money and time. Considering nothing changes in the draft processes, GSTN may still find it tough to meet the deadline.

Some are 'optimistic' or 'bullish' that the technology job will be done, but caveat their comments with 'challenging' or 'daunting'. Says former bureaucrat R. Chandrashekhar, the current President of the IT industry lobby NASSCOM, and a director on the board of GSTN: "Given the timelines, it is a very challenging task to get all of this in place. I am not just talking of the time for execution, but also the process involved in assigning the task."

Slow Start

It will, however, be unfair to say that nothing has moved in the past two years. GSTN has covered some ground, but the last few months of the UPA regime proved to be a damper. Ironically, GSTN was the UPA



R. Chandrashekhar
President, NASSCOM

"The complexity and enormity of the change management should not be underestimated. It requires people who are familiar with the system"

WHAT IS GSTN

A special purpose vehicle set up by the central and state governments to lay the information technology infrastructure for GST

The company was incorporated on March 28, 2013 as a non-government, private limited company

It will have a self-sustaining revenue model, where GSTN will be able to levy user charges on taxpayers and tax authorities for availing its services

It is an exclusive national agency responsible for delivering integrated indirect tax-related services involving multiple tax authorities

government's idea. Former chairman of UIDAI, Nandan Nilekani, who headed an 'Empowered group on IT infrastructure on GST', was the main architect. He was also chairman of the technology advisory group for unique projects that submitted a report in 2011 introducing the concept of national information utilities (NIU), like GSTN. NIUs would be private companies with a public purpose. They are profit-making bodies, but will not be allowed to maximise profits. The idea was to create enough flexibility for them to implement complex transformational IT projects.

GSTN was incorporated on March 28, 2013, with an authorised capital of ₹10 crore. The Government of India holds 24.5 per cent equity, the states and the Empowered Committee of State Finance Ministers another 24.5 per cent, and the balance, 51 per cent, is with non-government financial institutions.

Even though the structure suggests flexibility, it took five months for the company to find a chairman and 19 months to get a CEO on board. Bureaucrat-turned technology professional Prakash Kumar joined as the CEO in October 2014, four months after the NDA government kicked off the process of appointing a chief executive officer. Kumar was the National Technology Officer in Microsoft India. It could have taken longer for him to join the team if Microsoft had not waived off his notice period by one month.

Kumar has not wasted any time and pressed on the accelerator as soon as he was on the driver's seat. His LinkedIn profile announces: "I am in the process of recruiting a team, selecting Managed Service Provider (MSP) who will develop the GST portal to enable taxpayer registration (on the new system), file returns and pay taxes. We are looking for senior level technical people."

Are States GST Ready?

Developing the GST portal – the 'front-end' system – is only a part of the IT backbone job. Besides taxpayer registration and filing returns, it also has to handle invoices, execute interstate tax settlements and provide for business intelligence. It will then need to connect to the back-end infrastructure of states for two-way flow of data. But, are the states ready for the transition? No.

"There have been two meetings with the states where we tried to gauge the level of preparedness," says Rashmi Verma, Additional Secretary in the Department of Revenue, and a director in GSTN. "A majority of the states are IT-savvy in their front-end systems as they use IT (platforms) to file tax returns," she says. However, at the back-end, which helps assessment and audit functions, states do not have a strong technology infrastructure. Most states will now make an attempt to set up their own back-end systems, but will have to wait for

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COVERED GROUND: Work completed so far

1

Cleansing of dealer data and matching PAN numbers with those from the CBDT database (73% complete)

2

GST pilot has been completed for registration, return and payments

3

Process for back-end to be used by 12 states completed

4

Integration with five banks completed as part of the GST pilot. Integration with 25 more banks in process

GSTN to set the standards.

States are in varying degrees of advancement and sophistication, says NASSCOM's Chandrashekhar. Some have comprehensive tax systems where functionalities are online – states such as Tamil Nadu, Andhra Pradesh, Gujarat, Maharashtra and Karnataka have fairly robust systems. But even these states have not considered standards that will be applicable on a national scale. One of their main tasks would, therefore, be to ensure data synchronisation, because most states pursue different formats to feed tax data. "The way data in a particular state is organised will be different from other states. But in GSTN, there needs to be a certain degree of harmonisation. So, it is just not a matter of putting a switch or a pipe to connect the existing system to the GSTN network. There are other issues of standardisations, protocols,

security, handover, authentication, controls, etc. In many cases, the information and services that GSTN would handle, may be a subset of what a state needs or does," adds Chandrashekhar.

States with low levels of IT maturity will need more help. "Twelve states had written to GSTN to help them set up their back-end," says Verma. GSTN has agreed to help and has worked out a common process for the states, which include Bihar, Himachal Pradesh, Odisha, Uttar Pradesh, Chandigarh, Puducherry, Tripura, Mizoram, Nagaland, Arunachal Pradesh, Manipur and Uttarakhand. Along with the front-end portal, the company's tender for the system integration initiative will also include developing a common application software for these 12 states which will help in approving registrations, do assessments, audit, refunds, investigation and appeals.

Larger states with mature IT systems, however, may not need much time to get the back-end up and running, insists Kumar. "States need to modify their data to ensure two-way flow. We will define the standards. States will take two to three months to implement them," he says.

Getting the front-end infrastructure in place is, however, proving to be more time consuming for GSTN. Kumar says tenders will be out by the first week of April and the project can start by June 2015. The system integrator will, therefore, get

nine months to develop the system. "A fair amount of work around registration has already been done. A new registration system is not a difficult system to build," says Neel Ratan, Government Leader at consulting outfit PwC. The company is helping GSTN with the implementation model.

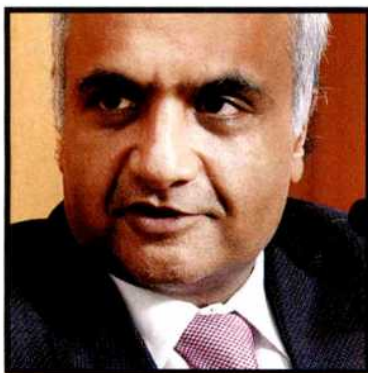
Over the past few years, National Securities Depository Limited (NSDL) has executed a pilot on registration, payments and returns. A detailed process, therefore, is in place to help the winning system integrator. "From April 2016, not everything ought to be operationalised. Assessments (back-end) typically happen 12 months later. We have to prioritise the activities," adds Ratan.

That sounds optimistic. But who will be the system integrator?

Belling the Cat

GSTN met industry representatives thrice so far: On December 16, 2014, and on January 9 and 25 this year. But the IT industry did not seem to be very enthusiastic, despite the fact that it could be a significant revenue opportunity for many players.

Some industry estimates peg the first-year development cost at below ₹1,000 crore, but the amount would vary depending on the choice of technology, whether open source or proprietary. However, the contract awarded to the system integrator will be for five years and this will include both software and hardware solutions, ranging from database software, workflow engines, payment gateways, security solutions, servers, storage, virtualisation engines and mobile technology.



Bharat Goenka

Co-founder and MD, Tally Solutions

"The government has to say it is a transformation project and that payments will not be delayed. If the SI puts good people on the job, you will get great outcome"

The reason for the cautious approach by system integrators seems to be their past experience with government contracts. According to NASSCOM, about ₹5,000 crore in contract payments is still stuck with the government from previous projects. "Government projects have delivered good value and good outcomes. But in a commercial sense, they have not been successful," says Chandrasekhar of NASSCOM. "There were difficulties that were experienced in the whole cycle of implementation and payment in stages, and so on," he adds.

Mid-tier IT firm Mindtree, for instance, developed the application for the unique identification project (UID), or *Aadhaar*. But the government is yet to make the full payment. "The project was done in two phases. We got paid for phase one, but not for phase two," says Krishnakumar Natarajan CEO and Managing Director of Mindtree, adding that the company is still keen to be part of the GST project. More so, as the 2015/16 Budget has raised hopes for quick resolution of such disputes with the proposed 'Public Contracts (Resolution of Disputes) Bill' promising to "streamline institutional arrangements for resolution of such disputes".

Many government projects, such as Passport Seva bagged by Tata Consultancy Services in 2008, run on the Build-Own-Operate-Transfer model, wherein the initial investment comes from the vendor. They recover their costs through a service charge per transaction. "In the industry there is a certain wariness and reluctance to invest money in projects, and then recover the costs over extended periods of time," says Chandrasekhar.

There is yet another side to the problem. Bharat Goenka, Co-founder and Managing Director of accounting

product company Tally Solutions, says that all good system integrators in India have sizeable dollar revenues. Therefore, they are more likely to put their best resources for outsourcing contracts rather than domestic deals where margins are thin. As a result, less capable people may be put on the job and this would mean poor delivery. "That may result

WHAT GSTN NEEDS TO BUILD	WHAT STATES NEED TO DEVELOP/MODIFY
Registration	Assessment
Return Filing	Refund
Tax Payment	Recovery
IGST Settlement	Appeal
MIS/BI/Dashboards	Investigation
Dealer Information & Ledger	Survey/Enforcement
Helpdesk/Call Centre	MIS/Analytics

in delayed payments. It is like a chicken-and-egg situation," he says, adding that someone has to bell the cat. The industry, therefore, expects the government to commit that GSTN will be a transformation project and payments will not be delayed.

GSTN now has to come up with a business model acceptable to the industry. That model is yet to get the final stamp of approval. "System integrators want funding of the hardware they need for the system. We are discussing it with the government. We need money for that," says Kumar. GSTN has the Union Cabinet's approval for ₹315 crore. In the first two years, it has already spent ₹28 crore. The remaining sum is hardly enough for buying the required hardware. According to industry estimates, GSTN may require an additional ₹500 crore to fund the purchase. It could raise the required capital through a loan, either from the government or

banks. That, however, sounds challenging, considering the size of the company with an authorised capital of ₹10 crore and the fact that its revenue model is yet to be firmed up.

Once the competitive bidding process starts, GSTN will have to pick a system integrator who is familiar with tax systems, else, there may be a long learning curve. According to industry sources, three sets of capabilities are important for a project of this scale: the ability of the vendor to integrate systems that aid tax collection, ability to integrate with the banking network as well as analytics capability.

Considering the above challenges, particularly the fact that even the task for building the system has not been assigned yet, it is unlikely that the IT backbone work can be completed in one year. There will be challenges related to data migration along the way, but the industry appears to be more worried about other non-technical issues right now.

"In the private sector, the goals are similar. It is about top line and bottom line. But in the government, there are many stakeholders and opposing goals. At certain levels there could be resistance," says Binod Hampapur, Executive Vice President, Infosys, which, in 2009, bagged a project to set up the Centralised Processing Centre (CPC) for the Income Tax Department for electronically filing I-T returns. The company ran into change management issues with unions protesting the outsourcing initiative. GSTN and other stakeholders must assure vendors that such challenges will be met with an iron hand.

Change management demons will also be testing the 66,000-odd state department tax officers who are expected to use the GST system. ♦

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The New Angels

Next-Gen entrepreneurs are turning investors in start-ups with a spirit to give back.

By TASLIMA KHAN

Snapdeal CEO Kunal Bahl is among the people, whom, Atit Jain, 27, updates regularly about the progress of his start-up, Gigstart, a marketplace for services. A few months ago, Jain could not find anyone to introduce him to Bahl. He sent a LinkedIn invite with a meeting request. "We were looking for advice, rather than money, for our half-baked tech product. Money, of course, was important," says Jain. Bahl replied and met him in May, 2014, just a day after Snapdeal announced the raising of \$100 million at a billion-dollar valuation. In December 2014, Bahl and Snapdeal co-founder Rohit Bansal participated

as angels and led a \$210,000 funding round for Gigstart.

Apart from Gigstart, the duo has invested in over half a dozen start-ups, such as apparel firm Bewakoof, travel-planning start-up Routofy, and TinyOwl, a food delivery platform.

Sachin and Binny Bansal, co-founders of online retailing giant Flipkart, also play angels to other entrepreneurs. Their portfolio includes SpoonJoy, which supplies healthy meal packs, Ather, which wants to make high-speed electric two-wheelers, and News in Shorts, a content outfit.

The quartet is not unique by any means. It is raining angels for young entrepreneurs with start-up ideas. Ratan Tata, Chairman Emeritus of Tata Sons, and N.R. Narayana Murthy, co-founder and Chairman Emeritus of Infosys, too, are providing early-stage funding. The Patni family, which pocketed a billion dollars by selling their eponymous computer company to iGate, is also in the game. And so are Deep Kalra, founder of MakeMyTrip, and one of the survivors of the first Internet boom, serial entrepreneur Krishnan



COVER STORY Angel Investors

Ganesh and his wife Meena, and Vishal Gondal, who sold his gaming company Indiagames at a hefty profit to Disney, and now runs GOQii, a wearable technology start-up, along with a few dozen others.

India had angels earlier, but till about five years ago, the numbers were small. Getting a commitment from an angel took a lot of time and effort and, considering the relatively small amount of money that finally trickled in, most start-ups weren't very keen to pursue it. Early-stage investors also asked for too large a share of equity in return for small cash. That was why most entrepreneurs bootstrapped their companies to a certain scale before seeking external funds.

Over the past couple of years the industry has witnessed two major changes. One, the number of angels and other early-stage investors have shot up. Two, angels now take quick decisions and write larger cheques. "When we started 15 years ago, it was largely through bootstrapping. Funding was in single digits and not in triple digits as it is happening now," says Kalra of MakeMyTrip.

In 2007, the Indian Angel Network had 60 members. Today they boast of 325 active angels. In early 2013, Mumbai Angels, an association with chapters in Mumbai, Delhi and Bangalore, had 100 members. It has more than doubled to 238 now.

Also, there are many who operate on their own. This group of individuals is twice as big or even more than those who are part of any of the formal angel networks.

Many operate strictly in the angel and seed funding rounds, while others are, technically speaking,

early-stage venture capitalists, putting money in after the first couple of investments have been made. Some invest directly, while others through seed funds that participate in funding rounds. A few keep an active eye on their investee companies, others prefer to give cash and then just sit back.

Most new angels have, however, one thing in common: They are successful entrepreneurs, and some still run the companies they started. They might belong to different generations, but a large number of them have been associated with the technology sector. Some, like Narayana Murthy, started in the 1980s and have now retired from active work. Others are part of the group which saw the rise and bust of the original Internet boom of 1999/2000. They are survivors who have continued to build their businesses. This group includes Deep Kalra, Vishal Gondal and Raman Roy, a BPO industry veteran. And then there are the youngsters – having started their own companies barely six or seven years ago. The founders of Flipkart,

Snapdeal and RedBus form an elite group which belong to this club.

Most are motivated to improve the entrepreneurial ecosystem in the country. "We are seeing a significant trend in terms of entrepreneurs wanting to invest back in start-ups," says Shanti Mohan, founder and CEO of Bangalore-based LetsVenture, which facilitates angel investments in start-ups through its online platform. Last year, LetsVenture, which is backed by as many as 21 angel investors (including InMobi's Naveen Tewari and Eka Software founder Manav Garg, among others), has facilitated ₹40 crore of funding across 22 deals. It has now launched an event, LetsIgnite, where it expects 200 entrepreneur-turned-angel-investors to participate.

Entrepreneurs candidly admit that it has to do with giving back. Vijay Shekhar Sharma, 35, who hails from a small town near Aligarh in Uttar Pradesh, was born in a family where having a government job was considered the ultimate goal, and the idea of running a business was frowned upon. He remembers

**SACHIN BANSAL (L)
and BINNY BANSAL**

Founders, Flipkart

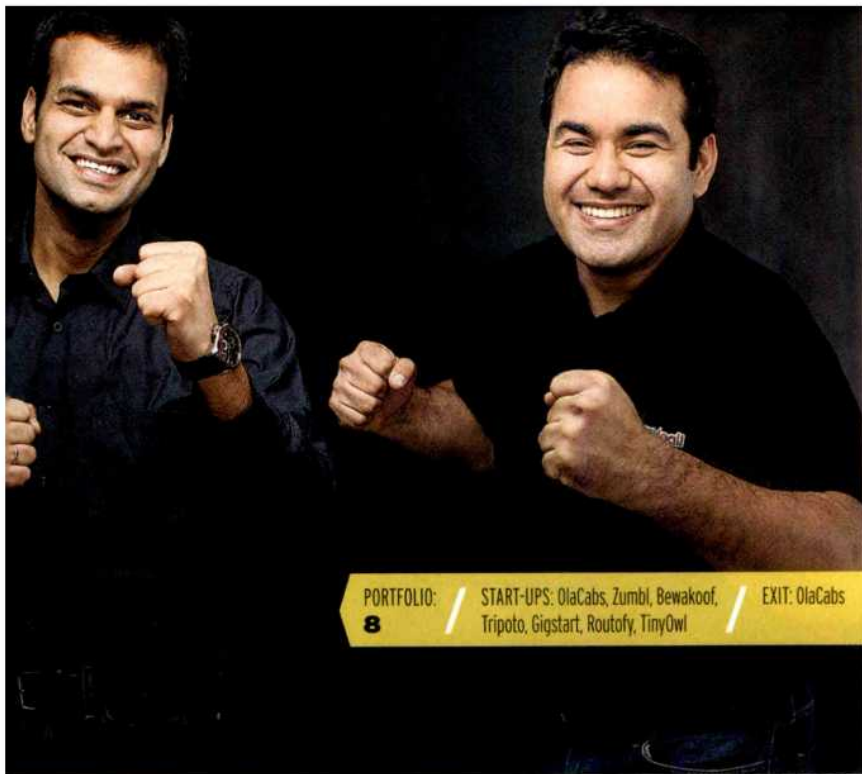


PORTFOLIO:
6

START-UPS: Ather, News In Shorts, Roposo,
Touchtalent, SpoonJoy, MadRat Games



NILOTPAL BARUAH



"The motivation for us is to stay young and know what is happening in the tech world"



KUNAL BAHL (R) and ROHIT BANSAL
Founders, Snapdeal

PORTFOLIO: 8 / **START-UPS:** OlaCabs, Zomato, Bewakoof, Tripoto, Gigstart, Routofy, TinyOwl / **EXIT:** OlaCabs

VIVAN MEHRA

his early days of struggle when he had launched One97, a mobile services company in Noida. It had run into trouble and was finding it difficult to pay back a ₹15-lakh loan. He was bailed out by a Delhi-based chartered accountant, Piyush Agrawal, who agreed to write a cheque for a 40 per cent stake in the company. Sharma is now an active angel in as many as 20 start-ups. "If I can be a life-changing moment for someone, it will be a great honour for me," he says.

In fact, while the older generation of investors mostly turned angels only after their businesses had become profitable or they had sold their companies, the younger lot often writes cheques for start-ups,

while they are themselves in the process of raising money from venture capitalists and private equity investors. The Bansals of Flipkart, Bahl and Bansal of Snapdeal, Gondal of GOQii, Mittal of People Group and Zishaan Hayath, founder of test prep venture Toppr, have all turned angels even as they seek investments to grow their operations. They belong to the Internet and e-commerce club, which also include logistics company Delhivery co-founder Sahil Barua and Jabong co-founder Praveen Sinha.

Avnish Bajaj, founder of online marketplace Baazee, which was later sold to eBay in 2004, says the one big difference is the money power of current generation of entrepreneurs

like Snapdeal, Flipkart, Jabong and Delhivery founders. "I saw my first million when I sold Baazee to eBay in 2004, and it took about three months to sink in," says Bajaj, who set up Matrix Partners in 2006.

The second attraction for many new angels – and especially the younger ones – is to remain at the cutting edge of the technology and Internet space. Snapdeal's Bansal says: "A major motivation for us is to stay young and know what is happening in the tech world."

Naveen Tewari, founder and CEO of InMobi, one of the biggest success stories in the mobile advertising space, echoes similar sentiments. "We all go to school and then we go to college. We always look back and

ANGELS, BUT NOT ENTREPRENEURS

The number of top-level corporate executives investing in start-ups is on the rise



Sasha Mirchandani

Mirchandani, who headed Corporate Affairs at family firm Mirc Electronics (Onida), is co-founder of Mumbai Angels and Kae Capital. He has invested in 25 start-ups, including InMobi, Myntra and Zipdial



Sharad Sharma

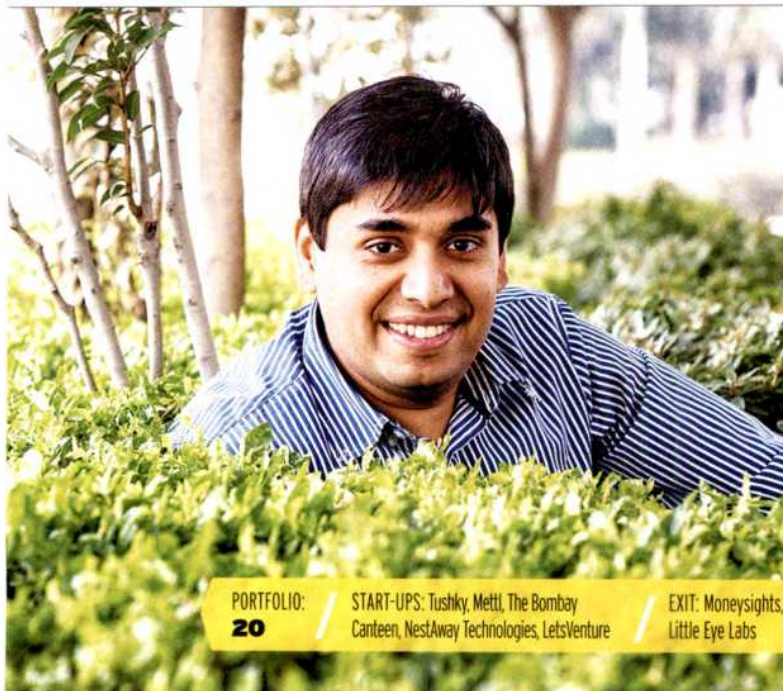
Sharma is former CEO of Yahoo India, and co-founder of industry group iSPIRT. He has invested in Mobilewalla, Frrore, Drupa Software, among others



Rajan Anandan

The Google India MD has put his money in Socialblood, StepOut, Sourceeasy, Capillary Tech, Instamojo, TargetingMantra, etc

COVER STORY Angel Investors



VIVAN MEHRA

PORTFOLIO:
20

START-UPS: Tushky, Mettl, The Bombay Canteen, NestAway Technologies, LetsVenture

EXIT: Moneysights, Little Eye Labs



NAVEEN TEWARI
Founder and CEO, InMobi

“Investing in start-ups (is like) going back to school... solving problems and situations that are very different”

miss our school or college days. Investing in start-ups answers the ‘how do I go back to our school’ issue... by solving problems and situations that are very different.”

“It is also a way to stay connected with the entrepreneur community,” points out Sanjay Kamlani, founder of legal outsourcing firm Pangea3, which was acquired by Thomson Reuters for \$100 million in 2010. Prior to that, he had founded BPO company OfficeTiger, which was acquired by RR Donnelley in 2006. He currently has 20 companies in his portfolio after exiting two.

The older generation of entrepreneur-angels have mostly been more measured in their approach. Narayana Murthy, for example, largely invests through his family office, Catamaran Ventures, which has a corpus of ₹600 crore. He also invests in more conventional assets. The fund makes early-stage start-up investments either directly or through investors in other venture funds.

Similarly, the Patni family set up a \$40-million dollar fund, Nirvana Ventures, to invest in technology start-ups soon after they sold their company. While the fund usually writes bigger cheques ranging from

₹2.5 crore to ₹3 crore, in the last two years, the Patni siblings, sons of the founders of Patni Computers, the late Narendra Patni and his brothers Ashok and Gajendra, have also started vying for opportunities in the angel investing space with smaller amounts of ₹5 lakh-30 lakh in start-ups largely through angel groups with someone else leading the round.

“We enjoy spending time with entrepreneurs, helping them with value and experience. It’s not just about capital these days,” says Amit Patni, co-founder and Chairman, Nirvana Ventures, and son of Gajendra Patni.

Ratan Tata, however, is in a league of his own. He is not a first-generation entrepreneur but enjoys the entrepreneurial space. He is also not strictly an angel because many of his personal investments have been in companies that have already raised some institutional money. But he backs entrepreneurs and ideas he likes, with his personal funds. He has invested in Snapdeal, Urban Ladder, Bluestone, Paytm and CarDekho.

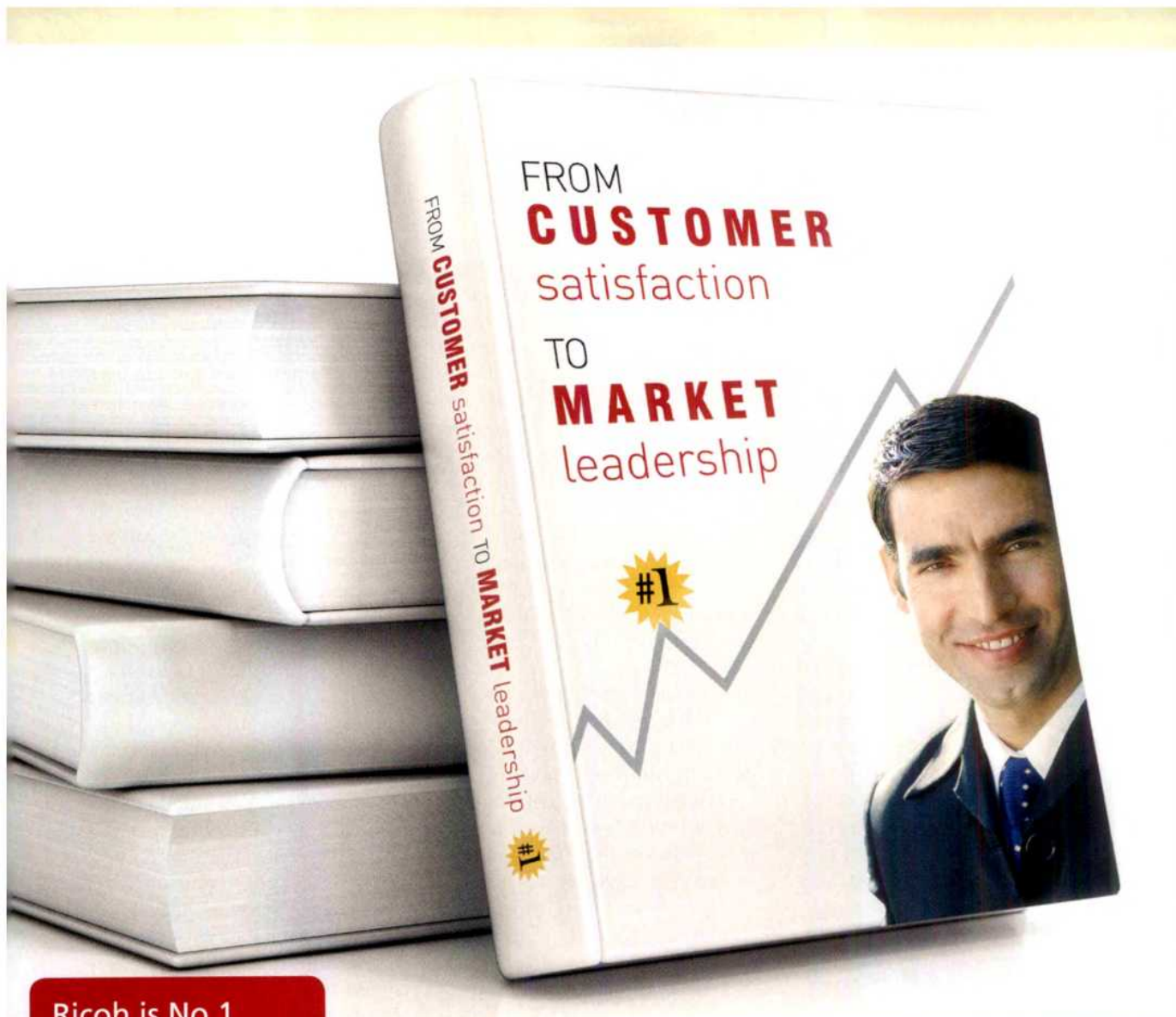
The younger angels, on the other hand, are both more prolific in their funding and take quicker decisions.

For One97’s Sharma, it has never taken more than one meeting

to decide on funding a start-up. “I just see a couple of things, the entrepreneur and the fire in the entrepreneur. Whether he is here because it is fashionable or because he wants to build something,” says Sharma, who even lends his offices for free to start-ups. Some start-ups that have come out from One97’s office are Browntape, Inox and Pokkt. He has also made successful exits with Little Eye Labs and Dextera.

Tewari of InMobi says he likes investing in disruptive ideas – and he often decides and closes a deal in one, or two days at the most. He bet on NestAway, a home rental start-up, and online assessment company Mettl. Both were disruptive ideas for him and his only foray beyond the tech field has been The Bombay Canteen, a recently-launched restaurant in Mumbai. He has over 20 start-ups in his portfolio currently, but does not consider himself an active angel because of his time constraints.

Tewari turned angel in a rather unusual way. A couple of his earliest employees – the first product manager and the first sales manager in InMobi – were putting in their papers to set up a personal finance company called MoneySights. “That was very, very emotional, because



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COVER STORY Angel Investors

you have very deep relationships with early employees. But when they left, we decided to invest about \$600,000 in them," he says.

"Their (this generation of entrepreneurs) relationships with start-ups are much deeper because they themselves are still fragile businesses, and they still have the start-up blood gushing through," says Prashant Choksey, co-founder, Mumbai Angels. "It also helps start-ups to get the entrepreneur's brand on their venture," he adds.

Most agree that there is no secret sauce to finding the perfect start-up. Neither is making money the primary goal – given that start-ups are the riskiest asset class one can invest in. In fact, barring a couple of cases of successful exits, too many investments had to be actually written off.

Neither is there a set method followed while investing. Most angels prefer to follow a mixed approach – they write personal cheques if they stumble upon a promising entrepreneur

but they also put money into seed funds.

Serial entrepreneur Sashi Reddi, who spends his time between Hyderabad and Philadelphia, in the US, made a windfall from the sale of his software company AppLabs to Computer Sciences Corporation for ₹1,200 crore. Of this, he used ₹100 crore to set up a fund that has so far invested in about 20 start-ups. The rest of his money is in much safer assets and managed by Avendus Capital in India and Goldman Sachs in the US. Reddi wanted to jumpstart another venture but figured out that backing youngsters with cool ideas was a better option.

"At 49, it would be hard for me to understand some of the core tech stuff," he says. "I will offer money and help build a company. That's the opportunity I am totally excited about."

Is it possible to become a billionaire by investing in start-ups in India? Not yet. Even the most successful exits have not made much

money for their early backers.

"In India we have not seen a Facebook, which made early investors like Naspers billionaires," says Anupam Mittal, founder, People Group, is an active angel. "Very few angels in India have made money and the best way to count success is to see their companies raise follow-on funding."

Angels usually wait eight to 10 years for an exit – if they have not written off the investment. Typically, 20 per cent of any portfolio will give great returns, 60 per cent will return the capital and the remaining may get written off. "If the ratio is 10, 20, 70 per cent, (respectively), then there is a problem," says Krishnan Ganesh, a serial entrepreneur and an angel to as many as 25 start-ups. Nine of his portfolio companies have already raised fresh funds from VCs.

Ganesh has had one successful exit with Little Eye Labs, which was sold to Facebook. However, putting only seed funding in start-ups is not going to win the game for angels.

To make money with start-ups in India one needs to be very, very lucky, says Mittal of People Group. He started investing way back in 2007, when he hadn't heard of the term angel investing. Now he has a portfolio of about 45 start-ups. He invests about half his money directly and half through angel networks he is part of. He often takes up a significant stake.

The theory of investing big and being a significant shareholder has worked out for him. An early investment in digital advertising company Interactive Avenues, which he exited in 2013 (his first exit), paid off handsomely. The company was picked up by IPG, a global advertis-

RACHIT GOSWAMI

"Seed investing is not going to make anybody a billionaire anytime soon"



PORTFOLIO:
45

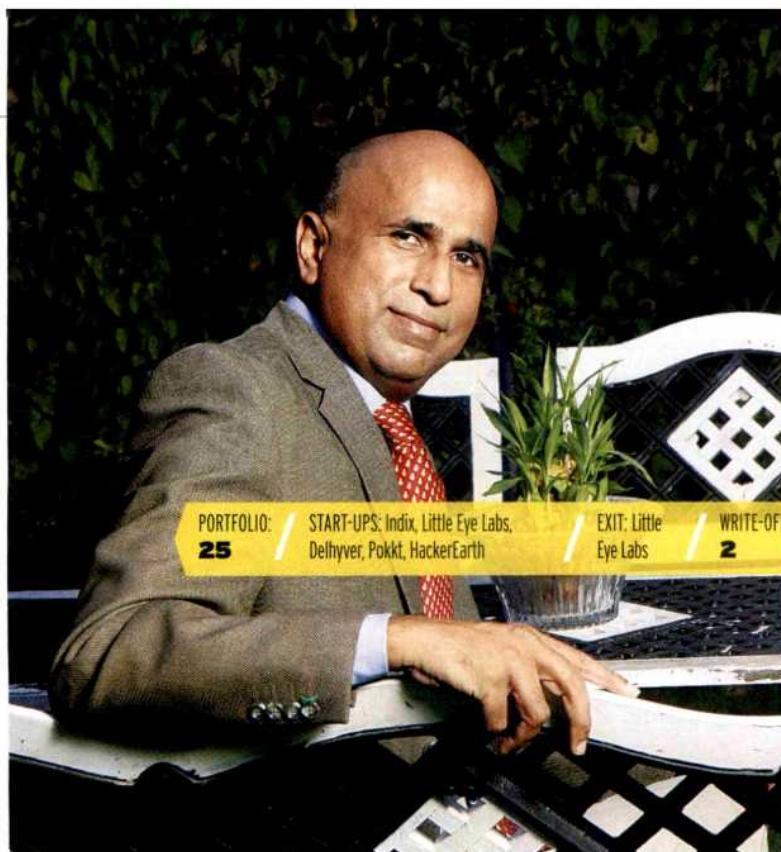
START-UPS: OlaCabs, Sapience Analytics, Pretty Secrets, Druva Software, Little Eye Labs

EXITS: Interactive Avenues, Little Eye Labs, Druva Software

WRITE-OFFS:
5



ANUPAM MITTAL
Founder and CEO, People Group



KRISHNAN GANESH
Serial Entrepreneur

PORTFOLIO: 25 / **START-UPS:** Indix, Little Eye Labs, Delthyver, Pokkt, HackerEarth / **EXIT:** Little Eye Labs / **WRITE-OFFS:** 2

"I have never come across a case where I have been pressurised to exit an investment"

ing conglomerate. Mittal, who was the largest shareholder in the company, wrote the cheque after a brief meeting with the team at the airport. His typical investment size has been ₹25 lakh to ₹50 lakh, but in Interactive Avenues he had pumped in around ₹4 crore, the highest he has invested in a single company. Since then, he has exited Druva Software and Little Eye Labs to make money in the process.

On the other hand, he has had around five write-offs and expects another five to fail. But seven in his portfolio, including OlaCabs, Sapience Analytics and Pretty Secrets, are now worth more than 100 times the investment.

While the ticket size of angel investments in India ranges below ₹50 lakh, some angels are raising the bar on this. They realise that in order to be able to make money with start-ups, it is important to put in a larger pool of capital. Sashi Reddi's model has evolved from investing small cheques in multiple companies for a minority stake to putting in bigger amounts in fewer companies, backing them with more capital in subsequent rounds of funding,



CASHING OUT

Many investors made money through successful exits

Interactive Avenues

After IPG Mediabrands bought it for ₹350-400 crore in 2013, investors including Anupam Mittal, WestBridge Ventures II Investment Holdings (formerly Sequoia Capital) gained

Little Eye Labs

Facebook's acquisition of the company in 2014 for \$10-15 million came as a windfall for GSF, VenturEast and angels including Krishnan Ganesh, Anupam Mittal, Naveen Tewari, Vijay Shekhar Sharma

Druva Software

Anupam Mittal and Rehan yar Khan made a fortune during the last round of funding that took the total amount raised to about \$67 million. Mittal exited the company while Khan partially offloaded his holdings

Dextra

Vijay Shekhar Sharma exited the start-up when Alibaba-backed Quixey acquired the company

Exclusively

Rehan yar Khan exited the fashion brand when Tiger Global led \$16 million investment in 2011

getting a board seat and being one of the largest shareholders. "I have figured out that small investments will not make me any money because even if the companies do well and raise follow on funding, my stake will get diluted," says Reddi, who has moved from investing about ₹20 lakh to upwards of ₹3 crore. He has a significant stake in six out of the 20 companies in his portfolio.

On the other hand, a few others have moved towards investing small amounts across a large number of companies to average out successes and failures. "It's just like the functioning of an insurance company. Enroll a large number of individuals to cover the risk," says Ganesh, who has written off two of his investments.

There are still others who are trying out different models. Shravan Shroff, founder and former managing director of Fame Cinemas, supports the idea-stage start-ups through his accelerator Venture-Nursery. Thereafter, he makes investments in eight to 10 companies from his own pocket every year. Infosys co-founders Kris Gopalakrishnan and S.D. Shibulal,

THE OTHER ANGELS:

Many entrepreneurs are helping other start-ups raise funding

Sanjay Kamlani, founder, Pangea3: Invested in EkStop, Mobiquest, Doodledeals, Rolocule Games and Inventure

Rehan yar Khan, founder, Flora2000 and Orios Venture Partners: Invested in Druva Software, OlaCabs, Sapience Analytics, Unbxd, Jigsee

Raman Roy, founder Quattro BPO; co-founder, Indian Angel Network: Invested in Knowcross Solutions, Stayzilla, Vienova Education

Zishaan Hayath, founder, Toppr; co-founder, Chaupaati Bazaar: Invested in Housing.com, OlaCabs, Shopsense, SquadRun, Chaayos

Sumit Gupta, founder and CEO, BASH Gaming: Invested in MixerBox, Pingpad, AdsNative, Blinkfire Analytics, NetPlenish, Equidate

Aloke Bajpai, CEO and co-founder ixigo.com: Invested in SilverPush, HackerEarth, Sourceeasy, Little Eye Labs, Autowale, BlueGape, Pokkt

Girish Mathrubootham, founder and CEO, Freshdesk: Invested in Kaalibi Technologies, Turing Research, Chargebee, ShieldSquare

Indus Khaitan, co-founder, Bitzer Mobile: Invested in Cirro-Secure, Bounce, InterviewStreet, Sourceeasy, Grexit, 99tests, Emo2, etc

Samir Bangara, co-founder and CEO, Oyuki; former COO, Indiagames: Invested in Playblazer, Tushky, Overcart, Thrill, Pokkt

Abhishek Rungta, founder and CEO, Indus Net Technologies: Invested in iimjobs, Plivo, iDubba, Shopo.in, Letsventure, Capricorn Gifting, CarSingh, Eduora



VIVAN MEHRA

PORTFOLIO: 20

START-UPS: Touchtalent, Zovi, Wishberry, TrulyMadly



DEEP KALRA

Founder and CEO, MakeMyTrip.com

“When we started 15 years ago, funding was in single digits and not in triple digits as it is now”

too, have embarked on the accelerator-led funding model. The duo has recently launched Axilor Ventures.

This is the age of intelligent capital and, Shroff believes, that although venture funds do bring in a lot of knowledge and contacts to start-ups, it's only entrepreneurs who can do the initial drill, since they have been through the same experience themselves. For start-ups, the entrepreneur-level understanding can often mean life and death. “It took only a lunch meeting that happened close to ISKCON Temple in Mumbai for me to get a verbal commitment from Shravan,” says 21-year-old Ritesh Agarwal, who runs online accommodation booking venture OYO Rooms. “The speed at which it came and the exact time when I needed the cash was quite amazing.”

Again, most entrepreneurs will place bets on business areas they know well and have experience in. But there are tangents to this

model. Gondal of GOQii stays away from gaming because he knows that there isn't a ‘kick element’ in gaming anymore. “I like to live in the world of chaos and start-ups are chaotic. Every time you enter a start-up, you enter a new chaos,” says Gondal, who has invested in about seven companies so far, the earliest being Shimla-based Instamedia, which he exited in 2013.

Some entrepreneurs raise funds after they have proven credentials as an angel investor. Rehan yar Khan, founder of Flora2000, is one such angel who has invested in about 19 companies. Several of these companies have gone on to raise follow-on funding or have been acquired. Exclusively and Jigsee have been sold to Myntra and Vuclip, respectively, whereas Unbxd, Druva, OlaCabs, and Sapience have raised multiple rounds of capital.

Others have stayed away from raising funds for multiple reasons. Angels enjoy the freedom and flexibility of being an angel rather than bearing the liabilities of returning the money back to investors in the fund and donning the responsibilities of a fund manager. “Being an angel investor is like having a gambling instinct... enjoying the *nasha* without



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COVER STORY Angel Investors



PORTFOLIO:
20

START-UPS: Grexit, Milaap Social Ventures, Edukart, iimjobs, Wishberg

EXITS: Little Eye Labs, Dextra

WRITE-OFFS:
1

"If I can be a life-changing moment for someone, it will be a great honour for me"



VIJAY SHEKHAR SHARMA

Founder and CEO, One97 Communications

VIVAN MEHRA

intoxification," says Ganesh.

Often, angels are edged out in follow-on investments because venture capitalists find it painful to deal with multiple shareholders. However, when the angel is an entrepreneur who is bringing enough value to the enterprise in terms of contacts, helping in hiring talent for the start-up, then the pressure to retain his stake in the company is higher.

Ganesh has a piece of advice for all entrepreneurs who are starting out. Start-ups should raise money as early as they can without worrying about valuation. "Sometimes entrepreneurs want to scale first, and raise capital later. But you never know when the markets change and which sector goes out of favour. Then you are stuck for cash," he says.

Unlike Gondal, many, including Sharma, have also set up funds to invest in areas they know well. Sharma's One97 Mobility Fund is one such example. It has investments in 16 companies, most of which are similar, in some way, to his original venture. Besides, MakeMyTrip founder Deep Kalra and gaming company Nazara Technologies's Nitish Mittersain have recently set up funds to invest in aligned businesses.

Angel investing in India is, however, still at an early stage, believe many investors. "Active angel investing started in India only around

2011," says Alok Mittal, former managing director of venture firm Canaan Partners. He is planning to start his own venture.

InMobi, which managed to grab the first cheque from Sasha Mirchandani (from the Mirc Electronics family) in 2007, inspiring the latter to set up Mumbai Angels subsequently, was the first success story for others to look up to. "The only thing we see lagging is the pace of development. Angels waiting for return for 10 years negatively impacts the venture capitalist ecosystem," he says.

While there is no incentive, let alone tax exemptions, for angel investors along the lines of those in countries like Singapore, domestic angels actually get penalised for risking their money. Gains from start-up investments are subject to taxation. Start-ups need to pay Angel Tax, which treats the angel investment they receive as revenue. And, therefore, it falls under the purview of Income Tax. Also, regulation discriminates between foreign and domestic investors. While the former's investments are tax-free, for the latter it is not.

Start-ups had high hopes from the finance minister, but Budget 2015/16 did not do anything to reduce the taxes. "Once clarity comes in, it can give a significant boost to the angel ecosystem," says Karthik Ananth, Director, Zinnov Manage-

ment Consulting.

But entrepreneur-angels remain bullish on start-ups for the next two to five years. "One thing is for sure that we will continue to invest a lot of money," says Mittal of People Group.

In some ways, the current Indian angel scene is mimicking that of the US. "One of the major underpinnings for the start-up culture in the US has been entrepreneurs backing entrepreneurs," feels Reddi. But there are differences. One, the entrepreneurial community in the US has made such huge quantum of money that, often, the large cheques they write, to the tune of \$2.5 million (which is rare from angels in India), make early-stage venture funds quite insignificant. Entrepreneur-angels grab all big deals, or have invested significant money across smaller deals.

For entrepreneurs too, getting a cheque from someone like PayPal founder Peter Thiel, who has backed 80 to 100 start-ups, is thrilling, because it puts them in a special club and the networks he brings are unparalleled. On the other hand, in India, the average angel cheque sizes are about half a million dollars. And, early-stage venture funds, such as Blume Ventures, Kae Capital or Angel Prime, are important to bring in decent money to start-ups. ♦

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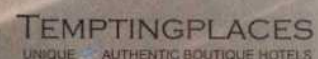
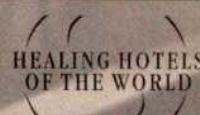
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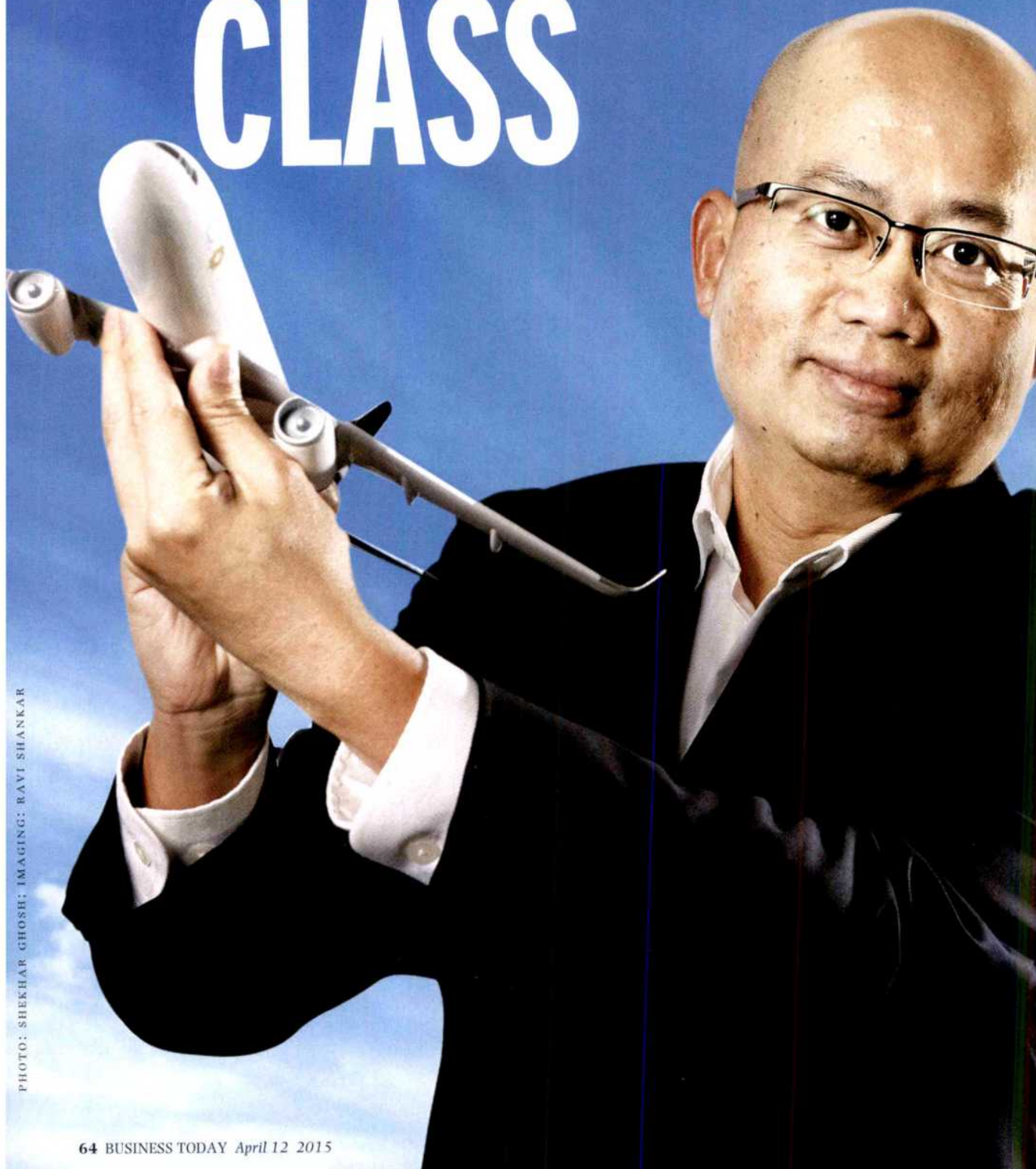


PHOTO: SHEKHAR GHOSH; IMAGING: RAVI SHANKAR

How Vistara is chasing a small market with big ambitions.

By MANU KAUSHIK

Soon, it will go away. Every rupee counts," says Phee Teik Yeoh, CEO, of the newly-launched carrier Vistara, pointing a finger to the light panel attached to the ceiling. Yeoh, who along with his team of over 100 people shifted to a new office in Gurgaon on March 2, was referring to one of the ways in which he can cut costs.

For any domestic airline, nearly 70 per cent of the costs are fixed, which includes aviation turbine fuel (ATF) expenses, landing and parking charges, and leasing cost. It has to manage the remaining 30 per cent well to stay profitable. But it is not just better cost management that will decide the long-term future of Vistara, a full-service carrier, in the Indian aviation market.

Vistara is the third full-service carrier in India. It plans to offer a superior product, including a premium economy class – an emerging segment globally. It can succeed if it manages to scale up fast while continuing to command premium over its competition. Its journey will be fraught with challenges on both operational and cost sides, and cracking the full-service model will not be easy in a market like India where airlines come to die. So what lies ahead for Vistara? If it has to succeed, it will have to find a way to differentiate itself in what is becoming a commoditised market; it will have to keep costs in control in an industry where operational costs spiral out of control; and flying abroad could be a game changer as and when it happens.

Size Matters

For Yeoh, there are multiple challenges. The biggest issue is the size of the business class market it is chasing. According to research and advisory firm Centre for Asia Pacific Aviation (CAPA) India, local low-cost carriers (LCCs) had over 60 per cent share, in terms of seat capacity, in January. Business class seats are just 3.5 to four per cent of total domestic seats. In India, the size of the business class market has been small due to the huge gap between the economy and business class fares – roughly three to five times. Globally, it is one-and-a-half to three times.

Yeoh says one can choose to perpetuate on historical statistics or do something to create demand. "Ever wondered why the proportion of business traffic is so low? Many business travellers are forced to travel in economy [class] because there is a lack of choice and offerings. The aviation market is at the cusp of change," he says.

The business class demand is cyclical. It is directly linked to economic conditions as more than 60 per cent of the aviation demand is estimated to be generated by the corporate sector whose annual travel

OPPORTUNITIES GALORE

Vistara has many things going in its favour

Sharp drop in jet fuel prices to help keep costs low

Managerial, financial and technical support from its parents – SIA and Tata Sons

Introduced premium economy to lure a segment of flyers

Companies are easing curbs on allowing executives to fly business class

PHEE TEIK YEOH
CEO, Vistara

“The aviation market [in India] is at the cusp of change”

budgets are linked to business sentiment. People in India do not usually travel by business class for leisure. Many companies had cut down on air travel and enhanced their video-conferencing facilities after the 2008 economic slowdown. The CEOs then were setting a personal example of austerity by travelling economy class. But with the situation improving, more companies are willing to loosen their purse strings. Vistara



Getting the Costs Right

To be successful, Vistara needs to have a cost base that is closer to LCCs, and a premium front-end. The steps to keep its cost base low were taken early on. When the two parents – Tata Sons and Singapore Airlines (SIA) – signed a pact in September 2013, a business plan was made. Some of the things were decided in the plan – for instance, to make Delhi a hub because it has low ATF prices and a less congested airport compared to other metros. In Delhi, a kilolitre of ATF costs ₹50,363 versus ₹51,704 in Mumbai, ₹59,479 in Kolkata

compared to other metros. In Delhi, a kilolitre of ATF costs ₹50,363 versus ₹51,704 in Mumbai, ₹59,479 in Kolkata

THE FIRST CUT

How Vistara performed in the first month since its inaugural flight on January 9 as compared to the best- or worst-performing airline for each indicator

	VISTARA	OTHERS	
Passenger load factor*	45.4	87.4	JetLite
Total passenger complaints	2	330	SpiceJet
Cancellations**	1.82	3.75	SpiceJet
Passengers carried^	0.15	22.76	IndiGo

*No. of seats occupied as a percentage of total available seats; ** cancellations in per cent
^In lakh Source: DGCA

hopes the business class will grow if the economy expands. But there's always a downside, to which Chief Commercial Officer Giam Ming Toh says, "Every business works on certain assumptions. If some parts of those assumptions do not materialise, we have to make adjustments."

Toh says a significant majority of the airline's traffic will be business-oriented. "Not just big companies, but also people who run their own businesses. As companies get bigger, they will have more executive level staff to fly business class."

and ₹55,346 in Chennai.

Also, the Vistara management knew that airport charges will be reviewed after 2014 and expected new charges to be lower. In February, the Airports Economic Regulatory Authority (AERA) proposed a 78.4 per cent cut in airport charges for Delhi. Fuel costs account for 45-50 per cent of an airline's cost whereas airport cost is less than 10 per cent.

Then, at the planning stage, a huge emphasis was given on costs and reducing the time to get things ready. For instance, one of the first

things it did was to send out a request for proposal documents for aircraft because manufacturers take some time after the orders are placed. It went to both Boeing and Airbus. The India market is predominantly A320s and 737s. While Jet Airways and SpiceJet use 737s, the other major carriers fly A320s. Airbus met its requirements, including finding a leasing company – BOC Aviation, a Bank of China subsidiary – that gave a package of 20 aircraft spaced over three to four years delivery schedule. "Airbus met our requirements better and they were also competitive in pricing," says Toh.

Also, the airline decided to go for simple leasing instead of the sale-and-lease-back model, which many domestic carriers follow. The airline is controlling other non-customer facing expenses as well, including outsourcing services such as airport handling, IT, engineering maintenance and line maintenance. Most airlines outsource only heavy maintenance whereas line maintenance covers daily checks and handling of spare parts. "It saves capital and minimise cost," says Kapil Kaul, CEO (South Asia), CAPA.

So far, it has kept the manpower lean. With total staff strength of over 400 and five planes, the plane-to-employee ratio is about 80, which is lower than the ideal ratio of 90. "We also leveraged on Singapore Airlines' expertise to get competitive contracts in areas of engineering maintenance and aircraft leasing," says Yeoh.

Differentiation Is Key

Unlike its competitors, Vistara's office has a look and feel of a start-up. Nobody in the senior management – not even Yeoh – has a cubicle or cabin. Interestingly, the airline started out from Vivanta (a Taj Hotels brand) in Gurgaon, and has shifted twice in 15 months to accommodate its growing workforce.

Vistara aims to command premium on its differentiated product offering. In fact, it claims to have pio-

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neered a new concept in Indian aviation by introducing the "premium economy" class. The idea is to cater to people who cannot afford business class – or even people who can afford business class but find it too expensive – but also do not enjoy economy class services. Several attempts have been made in the past by various carriers to address the growing demand of premium economy. In 2010, Jet Airways, through its low-cost brand Jet Konnect, had introduced semi-business class on select routes. Last year, Air India converted its first two rows of the all-economy A320 air-

craft operating on Delhi-Guwahati-Imphal into a premium economy class. The middle seats between aisle and window in these two rows are not sold. Later, SpiceJet also came out with 30 premium economy seats in the first five rows of its Boeing 737. Vistara says it is the only airline to offer exclusivity to premium economy passenger by having a separate cabin. Other airlines don't have special cabins. "Our premium economy is not just about two more inches of legroom," says Toh.

A Delhi-to-Mumbai cheapest economy ticket on Vistara for May 1 costs ₹4,558 (as on March 18), and

the lowest business class ticket costs ₹23,422. So, Vistara offers premium economy starting at ₹6,867 which, when compared to economy class, offers three to six inches more legroom and 5 kg more baggage. Also, there's separate check-in, priority tagging of bags, segmented handling of customer calls, separate boarding queues and more menu options.

Rahul Prithiani, Director (Industry Research) at CRISIL Research, says premium economy is a popular category globally. However, the success of this segment is not known in India yet.

are not willing to pay a higher price. Air France, for example, aims to modify and install over 1,100 premium economy seats on its 44 long-haul aircraft between June 2014 and July 2016. In fact, SIA is planning to introduce premium economy class to some of its fleet.

Vistara says its configuration of 148 seats for an A320 is lower compared to IndiGo's and GoAir's 180 seats. Its seat configuration is business class (16), premium economy (36), and economy seats (96). The airline's seat factor stood at 45.4 per cent in January (the month it started



SHEKHAR GHOSH

GIAM MING TOH
Chief Commercial Officer, Vistara

"We have a timeline to get to profitability but it's a moving target"

Globally, premium economy has done well for several carriers, including Cathay Pacific and Air France, which cater to business travellers who might downgrade to economy if they are facing budget constraints or

TOUGH ROUTE

Vistara faces a number of challenges

It will take time to expand the network, which is important for becoming the preferential airline

Except AirAsia India, all other major carriers can fly overseas

Adhering to the government's route disbursement guidelines could hamper designing of network

Its target market – business class segment – is small

operations) but it hopes this number will go up in coming months.

The key differentiator for Vistara's business class is more legroom. It offers 42-inch seat pitch, highest among full-service carriers on local routes. Jet Airways' business class (Premiere) and Air India's domestic Airbus A321s have 40-inch seat pitch. Seat pitch refers to the distance between the back of a seat and the back of the seat in front. Vistara feels for a flight of about two hours on A320s, there's little scope to offer vastly different services, and so, the focus is on end-to-end passenger experience.

For a business traveller, the key thing is timeliness. They give superiority to punctuality over experience. Toh says the airline is aiming to achieve higher on-time performance (OTP) through combined efforts of its crew and third-party agencies (for ground handling). The boarding for each class – business, premium economy, economy – is designated, which results in quick processing. It also does automated check-ins through which passengers get boarding passes on email four hours before departure.

It is believed that product differentiation does not make airlines profitable because there is intense competition. "For a new airline, scaling up the network is crucial as customers want multiple options. If you are unable to give enough choices, you are not a preferable carrier," says Kuljit Singh, Partner at consultancy EY.

In India, network planning is not easy. Under the government's route dispersal guidelines, all carriers must deploy some part of their capacity to remote destinations that may not be financially viable. Vistara has a weekly frequency of 164 flights. Experts say that route selection has to be based on demand analysis. Flying 16 business class seats with barely four seats occupied would hurt the airline.

With Vistara, the business class is making a comeback in the Indian aviation market. Prior to 2003, the domestic aviation market was largely driven by three full-service carriers – Indian Airlines, Jet Airways and Air Sahara. In 2003, the entry of Air Deccan shifted the focus to LCCs and in the next few years, the market was dominated by LCCs, primarily IndiGo, GoAir and SpiceJet. Of late, there's a shift towards business class. For instance, Jet Airways has decided to focus on the full-service model since last year. The shift has worked for Jet, as demonstrated by its impressive occupancy and market share over the past few months. Jet recorded passenger load factor (PLF) of 83.8 per cent, 89 per cent and 87 per cent for



KULJIT SINGH,
Partner, EY

"For a new airline, scaling up the network is crucial as customers want multiple options"

November, December and January, respectively. Its market share has risen from 8.17 per cent in July 2014 to 12.25 per cent in January this year. Air India is also reporting high domestic PLF in recent months.

Beyond a Boundary

Although Vistara management might not admit but it will complement the services of its parent SIA once it is allowed to fly overseas. Its model can work much better on international routes for two reasons. First, business class or premium economy travel is preferred by executives on longer-duration flights. On metro routes, with high share of senior corporate travellers, there will always be a section that can afford business class travel. On international routes, most MNCs and large domestic companies allow senior as well as mid-level executives to travel business class if the flight duration is above five hours. Also, facilities such as more legroom and in-flight entertainment, which Vistara plans to launch soon,

has more takers on long-haul flights. Rajesh Magow, Co-founder and CEO (India) of Makemytrip.com, says premium economy and business class would do well in long-haul flights.

Second, Vistara will be able to fly to the West, which SIA has not been able to do due to regulations. For instance, if SIA has to fly passengers to London from New Delhi, it will have to first take them to Singapore from Delhi before heading to London. Vistara can directly fly these passengers to London. This is why Emirates, based in Dubai, has been able to cater to business class travellers from India visiting Europe and the US. "We can't assume rules will change. There's nothing stopping us from competing with SIA. We are an Indian carrier, so we could use rights from the India side and compete," says Toh. Under the current norms, an airline needs an operational experience of five years and a fleet of minimum 20 planes before it can fly overseas.

Meanwhile, the airline is mum on its expected timeline to break even. "In the business plan, we have a timeline to get to profitability but it's a moving target," says Toh. Industry experts say profitability is not a big issue at the moment. But there's a possibility of conflict emerging between Vistara and low-cost carrier AirAsia India, a Tata joint venture with Malaysian carrier AirAsia, in future. "Though both cater to different segments and theoretically can co-exist, but practically I see this as a strategic conflict that will need to be sorted out," says CAPA's Kaul.

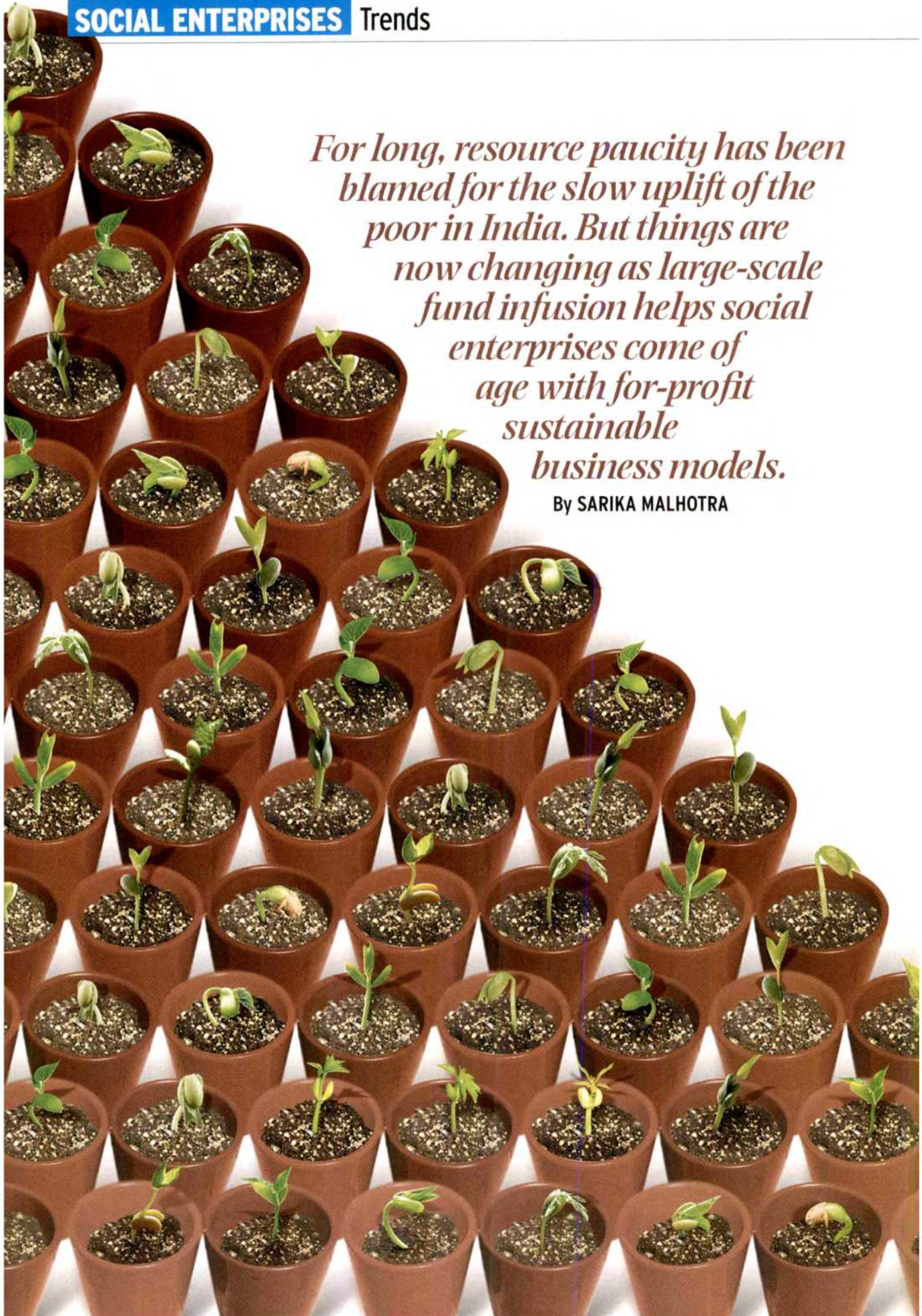
Yeoh dissipates the possibility of any such conflict. "The market is big enough. We are in two different segments. Even in the economy class, the market is big and there's a different profile of economy class passengers [in the country]," he says.

In the price-conscious Indian aviation market known for more failures than successes, Vistara is surely making a bold attempt. ♦

@manukaushik

For long, resource paucity has been blamed for the slow uplift of the poor in India. But things are now changing as large-scale fund infusion helps social enterprises come of age with for-profit sustainable business models.

By SARIKA MALHOTRA



Seeds of Change

The social enterprise ecosystem in India has evolved over the past decade as social impact funds, venture capital and private equity firms, and development financial institutions increasingly back organisations that cater to the low-income population with innovative and for-profit business models.

The funding of these enterprises has gone beyond philanthropic gestures. Today the outcome of such funding is measured both by the impact these enterprises make and the returns they generate. Ajit Mahadevan, India Country Director at Acumen, a global venture fund, says that, while the aim of such funds is to help create enterprises that improve the ability of the poor to live with dignity, "in the long run we do aim to see a return on capital".

According to Intellectap, an impact investment advisory services firm, social enterprises in India attracted \$435 million in funding by impact investors between 2000 and 2014. (A total of \$1.6 billion was invested in social enterprises in this period.) The funds have spotted an opportunity at the bottom of the pyramid. Vishal Mehta, Co-founder and Managing Director, Lok Capital, an impact investor, expects the momentum in the social enterprise space to continue. "We see more talents setting up social businesses. The conservative estimate of capital (risk and equity) needed is around \$300 million a year and it is growing annually at 20-25 per cent," says Mehta. Shreya Deb, Principal, Omidyar Network, says the number of social enterprises in India has surged in a range of sectors since 2005/06. "We expect social enterprises to grow even further in crucial sectors such as agriculture, livelihood, health, clean energy, water and sanitation, and education," she says. Also, entrepreneurs, impact funds and companies – through their CSR mandates – are increasingly working together to create sustainable and scalable business models for social enterprises.

BT zeroes in on five such enterprises that are growing steadily and delivering a bang for the buck for their investors.



INSIDE

LabourNet
Services India

Invest India Micro
Pension Services

RuralShores
Business Services

Anudip
Foundation for
Social Welfare

Asian Health
Alliance



RAJ VERMA

LabourNet Services India

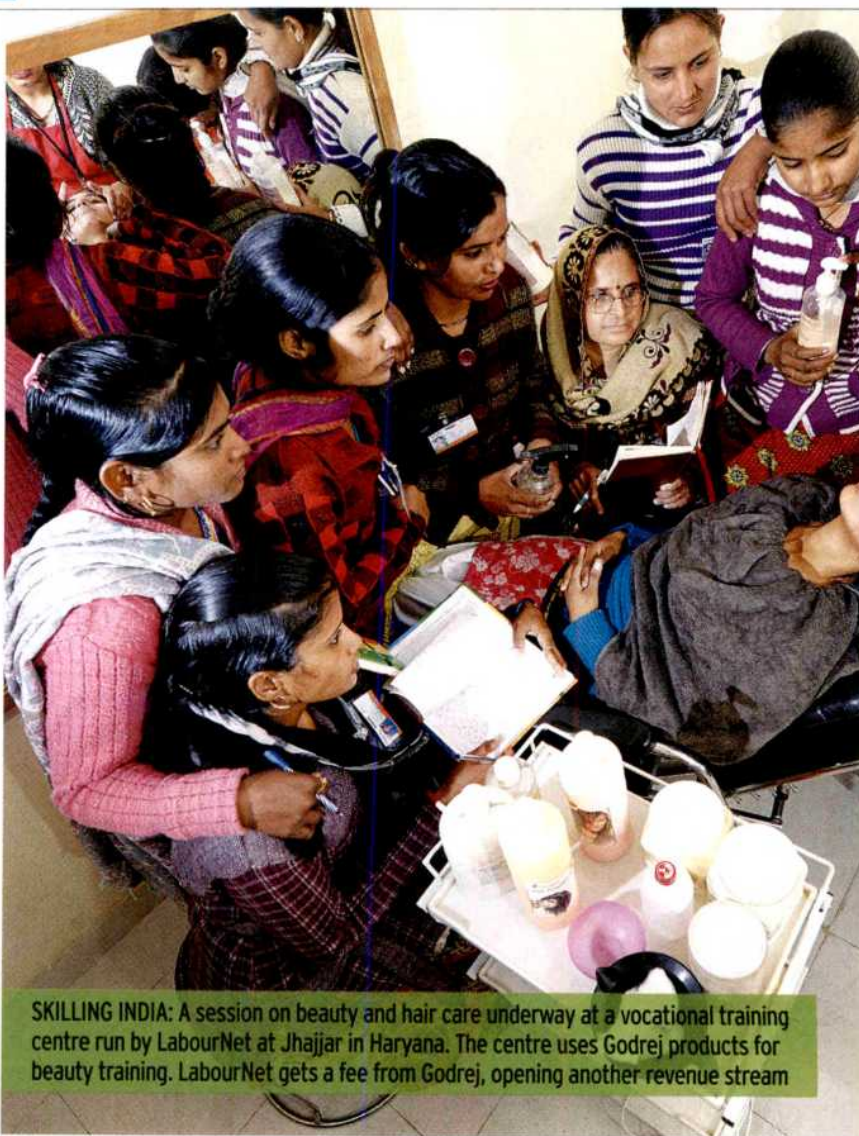
A Test of Skills

Babita Saini never imagined that a skill she sparingly practised for 15 years at home would one day help her earn ₹12,000 a month. And help other women stand on their feet, too.

Saini, 29, teaches sewing to women at the Panasonic Swabhimaan vocational training centre in Dadri Toye village of Haryana's Jhajjar district. In a state notorious for female foeticide and a skewed sex ratio, women like Saini stand out. And supporting them in their endeavours is LabourNet Services India. LabourNet runs the Jhajjar institute as part of the corporate social responsibility (CSR) initiative of consumer electronics maker Panasonic India, which has a factory close by. Besides sewing, the institute teaches skills such as mobile repairing and beauty treatment, and also helps candidates find employment.

LabourNet began as a project of the Movement for Alternatives for Youth Awareness, a Bangalore NGO, in 2006, and was incorporated as a company in 2008. Today, it provides training in nearly 500 locations in 20 states through 85 centres, 200 work-sites, 170 schools, and 70 Industrial Training Institutes. It has so far trained more than 1.5 lakh people.

LabourNet plays the role of an intermediary whereby it helps companies meet their CSR targets while imparting employment skills to people in the unorganised sector. "LabourNet's main aim is to solve a company's business needs. It is a largely corporate-paid model, where a corporate house pays LabourNet because it satisfies its CSR needs, training and quality needs, and/or



SHEKHAR GHOSH

SKILLING INDIA: A session on beauty and hair care underway at a vocational training centre run by LabourNet at Jhajjar in Haryana. The centre uses Godrej products for beauty training. LabourNet gets a fee from Godrej, opening another revenue stream

INVESTMENT:

2012: Sankhya Partners	0.27
2013: Acumen Fund, Michael and Susan Dell Foundation	0.43
(\$ mn)	

Source: VCCEdge

TOTAL INCOME:



Source: Registrar of Companies

procurement needs," says Gayathri Vasudevan, Co-founder and CEO. CSR projects and training budgets of corporates contribute 80 per cent to LabourNet's revenue kitty.

LabourNet has so far worked with more than 140 companies, including I&T, ITC and Hindustan Unilever. It charges ₹100-500 from candidates for a course and gets a centre management fee from the corporate house that sponsors a centre along with a training fee of ₹4,000 to ₹6,000 a month per candidate. LabourNet's aim is to train 10 million youth by 2020. "In the next two years, we will provide vocational education services at 800 locations," says Vasudevan, who is



looking at Odisha, Chhattisgarh, Jharkhand and Bihar for expansion.

LabourNet has received backing from several social impact funds and non-profit bodies. It has raised ₹40 crore from Sankhya Partners, Michael and Susan Dell Foundation, social venture fund Acumen, besides a soft loan from National Skill Development Corporation. Ajit Mahadevan, India Country Director at Acumen, says LabourNet's training model is difficult to replicate because of the knowledge required to deliver quality training that addresses multiple stakeholders and manage a corporate sales model. "We want to support an organisation like LabourNet until it achieves complete sustainability and scale," he says.

Invest India Micro Pension Services

A Present for the Future

Last October, Umesh Kumar Singh got the gift of a lifetime. Singh, an office boy earning ₹4,000 a month at Noida-based software firm Optimizory Technologies, was enrolled into a pension scheme by his employer. "We plan for our future in an organised way, but our workers don't. They, too, need to plan and save for their old age," says Pankaj Jangid, Founder, Optimizory, who paid a one-time fee of ₹300 to enrol Singh for the "Gift a Pension" initiative of Invest India Micro Pension Services (IIMPS), a social enterprise that helps low-income informal sector workers to save for old age through pension and insurance products.

IIMPS was set up in late 2006. It offers two government-notified pension schemes – UTI's Retirement Benefit Pension Fund and NPS Lite, a variant of the New Pension System for low-income people. It launched the Gift a Pension scheme in September 2014, to enable individuals and organisations to provide pension to their office or domestic helps. It has mobilised 450 customers so far. Overall, the company has roped in almost a million customers since inception. That may look like a sizeable number but is actually tiny given that India has more than 400 million informal sector workers without social security and the number of old people who do not draw pension may double to 200 million by 2030.

Gautam Bhardwaj, Co-founder and MD, IIMPS, says that with less than 10 per cent of the population paying taxes, the government cannot provide adequate pension to everyone. "Self

LOOKING FORWARD: Pankaj Jangid (right) gifted a pension to Umesh Kumar Singh. Jangid paid the enrolment fee and assured Singh the company would match his monthly contribution to the scheme



RIA MUKHERJEE

INVESTMENT:

2010: Michael and Susan Dell Foundation **0.98**

2013: Kreditanstalt Fur Wiederaufbau, Michael and Susan Dell Foundation **3.75**

(\$ mn)

Source: VCCEdge

TOTAL INCOME:

(₹ mn)



Source: Registrar of Companies

provision would be the way forward, at least for those who earn a regular income and can invest small amounts today for their old age," he says. To reach out to customers, IIMPS ties up with microlenders and regional rural banks such as SEWA Bank. To customers who don't have bank accounts, it issues Ratnakar Bank prepaid cards on the VISA network. It has also tied up with business correspondents like Itzcash and PayWorld to enable customers to recharge their prepaid cards at over 2.2 lakh outlets across India.

IIMPS gets a commission on every enrolment from the financial institutions whose products it offers and an annual commission for all customers who renew their policies. It charges an annual fee to each customer both at the time of enrolment and renewal. While the enrolment fee covers all education and enrolment-related expenses, the trail fee from customers who renew their policies provides long-term annuity income. "The model is interesting because the social outcome and business outcome are deeply intertwined. Only if the customers save regularly, we get trail fee from the product providers and annual fee from the customers," says Bhardwaj. The main challenge is to ensure that the customers save month after month, he adds.

A majority of IIMPS customers are in Maharashtra, Karnataka, Tamil Nadu, Gujarat, and Madhya Pradesh, and it plans to have a pan-India presence by enrolling five million people by 2018. IIMPS, set up with five individuals, putting in a sum of ₹1 lakh, has raised ₹40 crore from institutions, including UTI and Michael and Susan Dell Foundation. Geeta Goel, Director, Mission Investing, Michael and Susan Dell Foundation, says businesses that provide positively impacting services to the poor at affordable rates often do not meet the risk-return expectations of many mainstream investors. "We see our capital as playing a role that mainstream investors cannot."

RuralShores Business Services

The Small-town BPO



VIVAN MEHRA

RURAL CONNECT: A RuralShores BPO unit at Babrala in Uttar Pradesh's Sambhal district, housed in a compound owned by Tata Chemicals Society for Rural Development. The company engages with youth from smaller cities and towns, who have adequate talent but cannot migrate to bigger cities

Ritu Raghav is an employee of business process outsourcing (BPO) company RuralShores at Babrala, a sleepy town in the Sambhal district of Uttar Pradesh. The job is a godsend for Raghav, a postgraduate in political science from Meerut University, who lost her father three years ago. It gives the 24-year-old financial inde-

pendence and much more. She is paid ₹6,500 a month, which not only takes care of her household expenses and rent but also allows her to save a small amount. "I speak in English, have learned new things and don't have to ask anyone for financial help," says Raghav, who hails from Bundelkhand.

Raghav is one among the 2,600 employed by RuralShores. The com-



Interview with Anudip CEO Dipak Basu at businessday.in/anudip-basu

INVESTMENT:

2009: HDFC, Lok Capital I LLC **0.26**

2010: HDFC, Lok Capital I LLC **0.43**

2011: Lok Capital II LLC **2.85**

(\$ mn)

TOTAL INCOME:

(₹ mn)



Source: VCCEdge

pany started commercial operations in February 2009 and has steadily built a pan-India network of 18 centres in 10 states – Karnataka, Tamil Nadu, Uttar Pradesh, Maharashtra and Madhya Pradesh have more than one centre. The company engages with youth from smaller towns and cities who have talent but either cannot migrate to bigger cities or the remuneration they get in urban centres is not enough for them to eke out a living. “Despite frequent job changes, BPO employees rarely receive the income or quality of life they desire. The way to break out of this scenario is to move jobs to villages rather than compelling rural youth to migrate to urban centres,” says Maharaja Gokulavasan, Senior Vice President and Head of Service Excellence, RuralShores.

RuralShores provides a wide range of services, from simple data entry to knowledge process outsourcing and local language voice support to a variety of industries such as telecom, financial services, insurance, retail, and consumer goods. Its voice portfolio alone contributes 68 per cent of its business. The company has worked with 42 organisations so far.

RuralShores recruits staff from villages within a 10 to 15 km radius from its centres. More than 50 per cent employees are graduates, while the rest are Class XII pass outs. Its centres have an average of 100 seats. “Jobs are offered in accordance with education levels and profile. Preference is given to people from low-income families. The consistent performers are exposed to intellectually stimulating environment,” says Gokulavasan.

“It is the reason why our annual attrition is below 10 per cent, leading to higher productivity and quality results.” Urban BPOs have much higher attrition rates of 40 to 60 per cent. Lower rentals and attrition rates, along with lower recruitment and retention costs, make RuralShores cost-effective compared with urban BPOs, asserts Gokulavasan. “We are about 25 per cent more cost-effective than urban BPOs,” he says.

RuralShores has raised multiple rounds of funding from its investors and continues to enjoy their trust. Lok Capital LLC, a Mauritius-based venture capital fund, invested in RuralShores in 2009 and late 2011. “The company has proved it is possible to scale the business and has continued to attract capital. It is the largest operator in this space and the team and shareholder quality is top notch,” says Vishal Mehta, Co-founder and Managing Director of Lok Capital. Lok made a complete exit from its initial investment in RuralShores in April 2014, but Mehta says the fund is still deeply engaged with the company on the strategic aspects of business.

The goal of RuralShores is to open one centre in each of the 500 rural districts of India, providing sustained employment to more than 100,000 rural youth. However, infrastructural bottlenecks, like power shortage and poor telecommunication links in remote locations, remain a big hurdle in its plans to scale up.

Anudip Foundation for Social Welfare

Rebuilding Lives

Khirki village in South Delhi is a maze of buildings and narrow, dirty bylanes. In an obscure corner of the area is a centre where a group of youngsters – political refugees from Afghanistan – is learning computer skills. Armed with good English-speaking skills, these trainees aspire to get a job after the completion of the course. It is an initiative by Anudip Foundation, an entity which teaches vocational skills to educated and unemployed youth with a focus on the IT sector.

Training political refugees in Delhi is part of Anudip's initiative to expand its reach beyond its hub in eastern India – most of its 152 centres are located in West Bengal, Odisha and Jharkhand. Since its inception in 2007, Anudip has trained 33,000 students in IT skills, spoken English, financial accounting, and image processing, among other courses.

Anudip mobilises students through NGOs, gram panchayats and advertising in newspapers and TV. “We try to mitigate students’ and parents’ initial hesitation and doubt

INVESTMENT:

2011/12: Omidyar Network **0.65**

India Advisors

(\$ mn)

TOTAL INCOME:

(₹ mn)



Source: VCCEdge

towards the programme through free counselling," says Dipak Basu, CEO, Anudip. Students pay ₹1,000 for a three-month course. The balance is funded through grants, government, or CSR income.

Anudip's flagship programme, Market Aligned Skills Training (MAST), is a two to three months full-time course and is based on an ethnographic study of the region and continuous student and employer feedback. Basu says Anudip

from institutional donors and impact funds like Omidyar Network, American India Foundation, Accenture, Michael and Susan Dell Foundation and Bank of America. Omidyar invested \$650,000 in Anudip in 2011. "The number of students trained each year has risen more than five times to nearly 12,000 this year. They have maintained a high placement ratio and also help students pursue entrepreneurship, which helps spur the lo-



A HELPING HAND: Dipak Basu of Anudip Foundation with political refugees from Afghanistan at a computer training class at a centre in South Delhi

LOKESH KHATRI

averages 80 per cent success in securing jobs for its students and has signed letters of intent with 300 employers for placement.

Its students have been placed in companies such as Tech Mahindra, Big Bazaar, Aegis, and TCS among others. Also, specially trained Anudip graduates are employed by its sister company iMerit to execute IT projects involving technical support, e-publishing and web services. About 95 per cent of iMerit's 500 employees are trained by Anudip.

Anudip has received support

cal economy," says Shreya Deb, Principal, Omidyar.

Anudip is striving to reduce reliance on institutional donors in the long run. "We are growing the top line by increasing course fee, taking on external training assignments mostly through CSR funding, reducing costs by increasing class sizes, consolidating training centres and deploying e-learning technology. These steps allow us to apply the economies of scale to reduce cost and make the business model sustainable," sums up Basu.

Asian Health Alliance Healing Touch

Asian Health Alliance (AHA) was launched in 2010 to meet the growing need for good quality and affordable diagnostic services in smaller towns. It operates in north Karnataka under its brand Asian Health Meter (AHM).

"AHA provides diagnostic services in communities where most households earn less than ₹15,000 a month. Access to these cheap services reduces the total cost of treatment to patients, allows for critical conditions to be detected earlier and more accurately," says Ajit Mahadevan, India Country Director of global impact fund Acumen, which invested \$670,000 in the company in 2013.

Indeed, Acumen estimates that of the 50,000 diagnostic labs in India, only about 10 per cent fall under the organised segment – this category comprises large diagnostic chains, but their services are unaffordable for the low-income population in smaller towns and cities. So, a majority in Tier-III and Tier-IV towns is forced to rely on local labs in the unorganised segment. These tend to be small, hole-in-the wall type set-ups. The quality of services at local labs varies drastically depending on the pathologist, and they often do not have the basic infrastructure in place.

AHA's services are up to 40 per cent cheaper than diagnostic labs in big towns. "Our operational costs are lower, including staff and rent. Our capex (capital expenditure), too, is lower. Also, our profit expectation is lower as we have to compete with smaller labs in the vicinity," says Tara Prasad Mohapatra, CEO, AHA.

AHA has a hub-and-spoke model. Hub is a main centre typically lo-



NITOPAL BARUAH

REACHING OUT: An AHA diagnostic centre in Davangere, Karnataka. With its hub-and-spoke model, AHA provides high-quality and affordable diagnostic services in smaller towns and cities

cated at a district headquarter. A spoke can be a collection centre for a hub or a processing centre with a very limited test menu. It currently has three hubs and six spokes. "In 2010, we started AHM with our first hub in Davangere. Thereafter we launched centres in Hubli and Gulbarga," says Mohapatra. AHA has provided services to nearly 300,000 patients since its inception. Mohapatra explains that diagnostics has four kinds of revenue streams. Patient walk-ins, driven by advertising campaigns and brand development; referrals by other doctors; lab-to-lab where AHM becomes big brother to small, technician-run labs; and hospital-to-lab (where hospital labs refer their cases to AHM centres). The company, though, refuses to divulge whether it has broken even yet.

AHM has introduced several service innovations to better serve its customers. Review of results by experts, a 24-hour turnaround time for tests, complete range of pathology tests at all spokes, additional radiology capabilities and outsourcing some technical capabilities to hubs

without compromising on turnaround times. "Diagnostic business is scalable, but one has to be in for a long haul. The hubs have to be more and more productive through economies of scale and that leads to sustainability," says Mohapatra.

Mohapatra says AHM is competing both with labs in metros and in smaller centres. "In test menu, we are not as exhaustive as big labs in metros but whatever tests we do, we have no difference in quality and we are also cheaper," he says. "On the other hand, no other lab in vicinity would practise such exhaustive quality control process." However, the big challenge before Mohapatra is finding trained manpower. "This is the company's biggest challenge. Quality and professional manpower is not available in Tier-III and IV cities," he says.

Mahadevan feels AHA's performance is on track despite high employee attrition rates in the past year. The fund expects the company to embark on its ramp-up plan in the coming year given the huge potential for growth. "India has seen significant interest from PE players in diagnostics with four major organised

INVESTMENT:

2013: Acumen Fund
(\$ mn)

0.67

Source: VCCEdge

TOTAL INCOME:

(₹ mn)



Source: Registrar of Companies

laboratory chains securing funding. Major global health care chains and specialised diagnostic chains are looking for market entry, consolidation or expansion of footprint," says Mahadevan. "We would look to exit through a later-stage financial or strategic investor who is aligned with AHM's overall business vision."

AHA, then, will have to contend with some serious competition as it prepares to scale up rapidly. ♦

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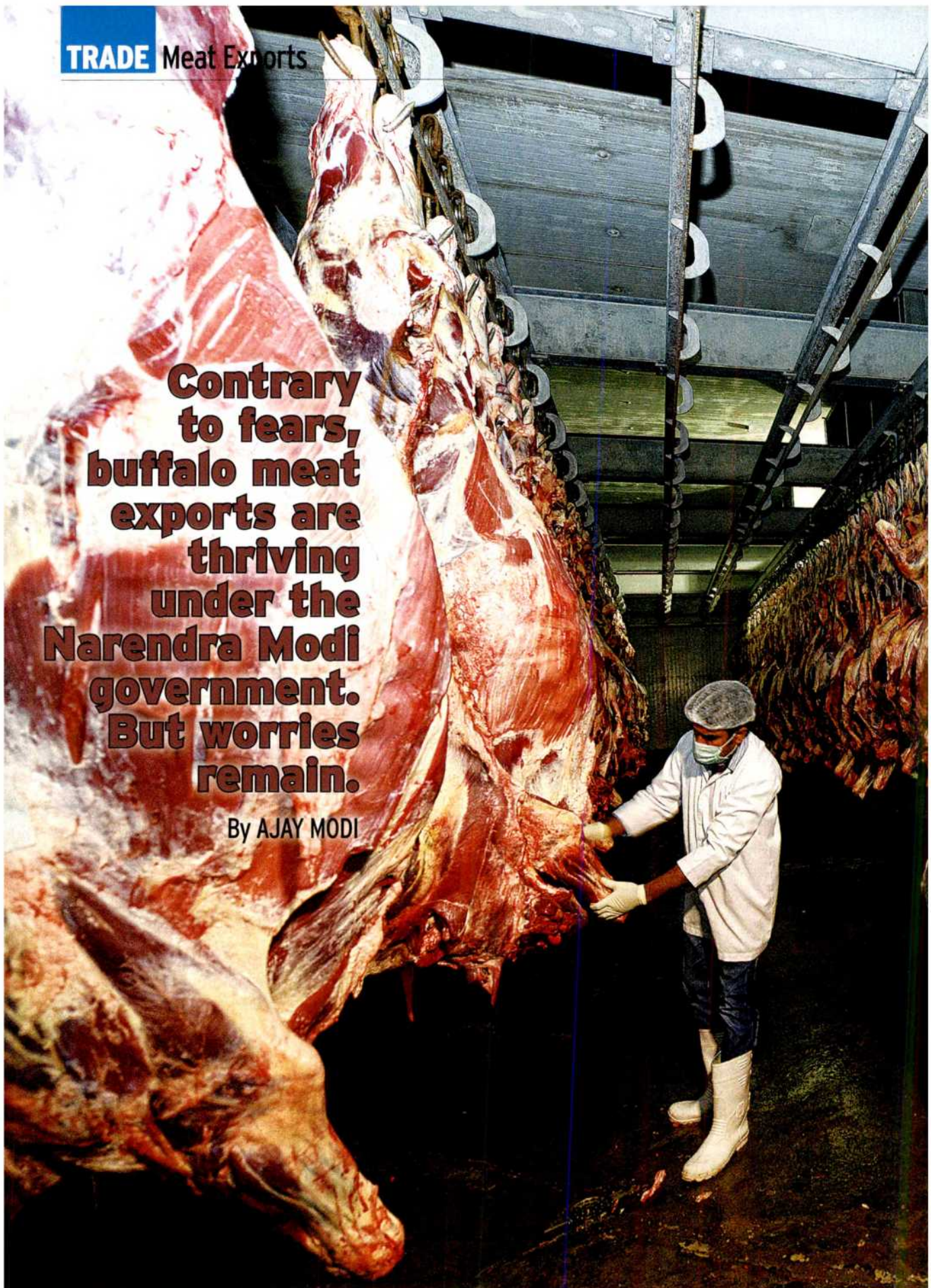
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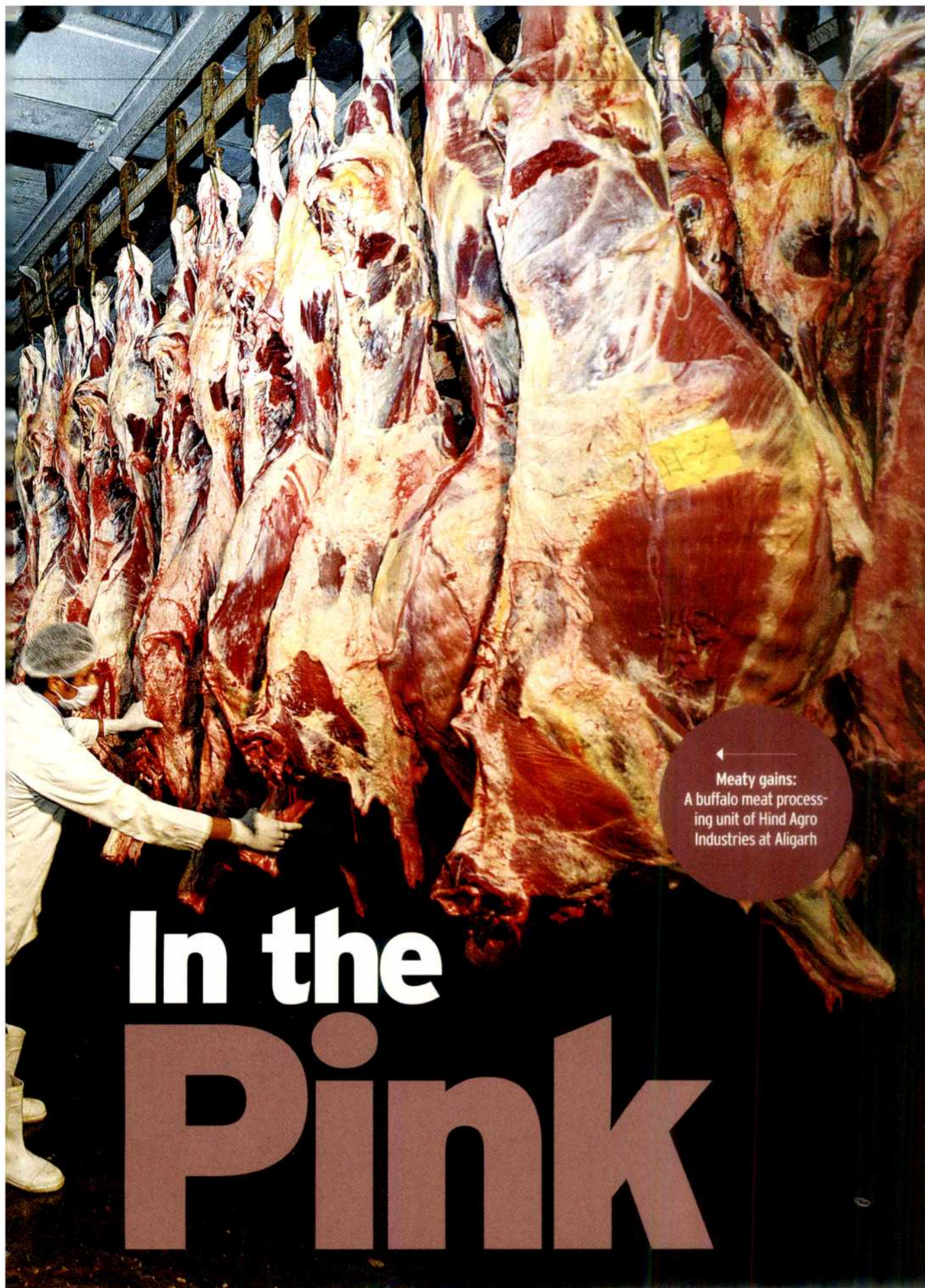
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**Contrary
to fears,
buffalo meat
exports are
thriving
under the
Narendra Modi
government.
But worries
remain.**

By AJAY MODI





Meaty gains:
A buffalo meat processing
unit of Hind Agro
Industries at Aligarh

In the Pink

PHOTOGRAPHS BY SHEKHAR GHOSH

April 12 2015 BUSINESS TODAY 81

Most of Indian business rejoiced when the Narendra Modi-led Bharatiya Janata Party (BJP) swept last year's general election. But one section viewed the results with trepidation, fearing for its future – meat exporters. Given its Hindutva leanings, the BJP's distaste for meat was no secret. Modi had stoked further worry during his election campaign by accusing the erstwhile United Progressive Alliance (UPA) government of promoting a 'pink revolution' – a reference to the colour of raw meat – through policies which encouraged slaughterhouses and meat exporters.

The fears have been belied. With the new government taking charge in May last year, growth in meat exports did indeed see a dip in the April to June quarter. While exports rose 24 per cent in April 2014, shipments slowed in next two months – growth was a modest 10 per cent for the April to June period. But it has recovered since, rising 16

the female ones – are sent to the abattoir only after they grow old and stop yielding milk. A secondary reason for Indian meat's popularity in the Persian Gulf countries and others with large Muslim populations is that buyers are assured it is halal – slaughtered in the manner Muslims consider ritually appropriate. Indian meat is exported to 65 countries, the biggest markets being Vietnam (40 per cent), Malaysia (nine per cent), Thailand (seven per cent) and Saudi Arabia (six per cent).

Still, some disquiet remains, as evinced by the refusal of some in the business – including the owners of the biggest export house, Allanasons – to speak to *Business Today*. The BJP's discomfort with the meat industry is far from overcome, as the Maharashtra government's blanket ban from early March, on the sale and even possession of beef, with harsh penalties for offenders, showed. Vigilante attacks on trucks carrying cattle have also increased in that state. Haryana, another BJP-ruled state, has followed suit with a ban. The BJP's sister organisations – the Rashtriya Swayaksevak Sangh (RSS) and the Vishwa Hindu Parishad

BEEFED UP: Meat exports from India have jumped both in volume and value terms in the past three years...



	2011/12	QUANTITY/VALUE 2012/13	2013/14	VALUE Apr-Jan 2013/14	Apr-Jan 2014/15
Buffalo Meat	0.98/2.87	1.10/3.20	1.44/4.35	3.55	4.15
Basmati Rice	3.17/3.22	3.45/3.56	3.75/4.87	3.92	3.73
Non-basmati Rice	3.99/1.81	6.68/2.65	7.13/2.92	2.40	2.73

Export quantity in million tonnes; value in \$ billion; Source: APEDA, Commerce Ministry

per cent in the first half of 2014/15 and 17 per cent in the first 10 months. Meat export is now a \$5 billion industry, not only replacing basmati rice as the biggest revenue earner in India's processed foods category, but also making India the world's second-biggest meat exporter.

The supportive policies Modi railed against remain in place – the government still offers a grant of up to ₹15 crore to set up new abattoirs or modernise existing ones. More and more players are jumping in – leading B2B online marketplace IndiaMart saw a 20 per cent increase in registration of meat exporters in the past year. "India is among the world's largest meat exporters and there are reasons for it," says Sirajuddin Qureshi, Chairman and Managing Director of Delhi-based Hind Agro Industries Ltd, one of the leading meat processors and exporters in the country.

What are the reasons? The primary one is pricing. Indian meat is almost 20 per cent cheaper than Brazil's mainly because Brazil rears cattle specifically for slaughter, which is expensive, while in India water buffaloes – at least

(VHP) – continue to clamour for a total ban on meat export.

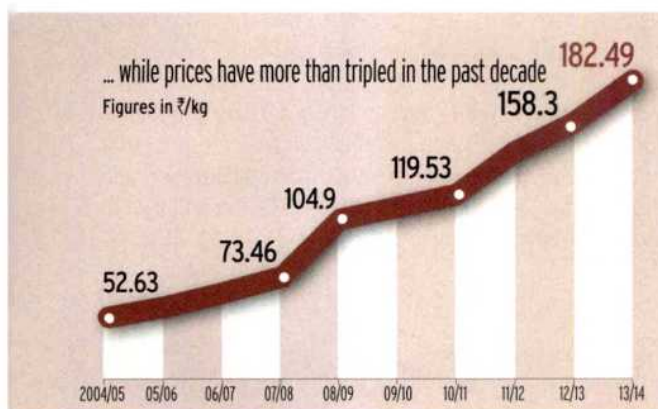
The bulk of the meat exported is buffalo – and therein arises part of the animus. Buffalo meat is sometimes erroneously referred to as 'beef', which it is not. There are restraints on the processing or sale of beef – normally cow meat – since the cow has religious significance for Hindus. Accordingly, cow slaughter has been either banned or severely restricted in most Indian states – barring Kerala, West Bengal and some northeastern ones – for decades, the ban reinforced by a Supreme Court judgment in 2005. It is buffalo meat, against which there are no religious or legal strictures, which is processed and exported. India's foreign trade policy expressly forbids export of cow meat.

The campaigners insist cow meat continues to be illegally sold – and even exported – under the guise of buffalo meat. "If you ask for Indian cow flesh in Dubai, you can get it," says Ashoo Mongia, President, Rashtriya Goraksha Sena, one of the activist groups. "We hope the Modi government will act against meat exports." The industry dis-

misses the charge. "After investing so much and building a market, who would take the risk of ruining it all by selling cow's meat clandestinely?" says Sunil Sud, Partner at Delhi-based Al Noor Exports, which runs a meat processing unit at Muzaffarnagar in Uttar Pradesh.

Other objections include Union Minister for Women and Child Development Maneka Gandhi's charge last September – citing a police report – that some of the meat industry's funds were being used to back terrorism. "Money through trade of slaughtered animals goes into terrorism, therefore into killing us, why are we allowing this?" she was quoted as saying at a Jaipur event. The industry calls the allegation baseless.

An Uttar Pradesh based dairy player – who preferred not to be named – also expressed the fear that rising slaughter of female buffaloes could affect milk availability in coming days. But Mohammad Ali Qureshi, President, Bombay Suburban Beef Dealers Association, notes that lactating buffaloes cost so much more that slaughtering them makes no sense. "The average price of the buffaloes



we buy is around ₹25,000, while that of a milk yielding buffalo is ₹50,000," he says. "Besides, why would a farmer sell a buffalo for slaughter when it is generating daily income?" On the contrary, after farmers sell their aged buffaloes, they usually reinvest the money in young, milk yielding cattle, increasing their overall milk production. "As milk production rises, so does buffalo meat production and export," says Al Noor's Sud.

A visit to the districts of Meerut, Aligarh and Muzaffarnagar in western Uttar Pradesh – the state is the country's meat hub, exporting \$3 billion worth per year – shows rearing buffaloes has indeed become much more popular than keeping cows. "A cow has to be fed till it dies, while a buffalo can be sold once it stops giving milk," says Sud. Nor is the phenomenon confined to Uttar Pradesh. "Booming meat export has triggered large scale farming of buffaloes in states like Maharashtra and Punjab," says Mohammed Ather, Managing Partner of New Delhi-based meat exporters, the Azan Group.

Many meat processors have entered into arrangements with buffalo farms to ensure steady supplies. While females are retained by farmers so long they give milk, males are sold much earlier. "Farmers sell us male buffaloes aged six months and we look after them till the age of 18 months," says Hind Agro's Qureshi. "This ensures healthy growth before they are slaughtered." Hind Agro has its own buffalo farm which houses around 35,000 animals at any time. For further supplies, meat processors turn to open markets. "There are regular cattle fairs in villages where aggregators pick and choose animals and sell them to us," says Sud. "We also procure from live-stock mandis."

Some in the trade, which is dominated by Muslims,



Sirajuddin Qureshi/ CMD/ Hind Agro Industries

"India is among the world's largest meat exporters and there are reasons for it"

Mohammed Ather/ Managing Partner/ Azan Group

"This business has a lot of potential but is becoming a victim of religious differences"

suggest the real reason for the animus is a bias against their community. "This business has a lot of potential but is becoming a victim of religious differences," says Ather of the Azan Group. Others are quick to point out that it is not only Muslims who benefit from it. Hind Agro's Qureshi says half his employees at the Aligarh plant are non-Muslims. "We have packaging, administrative and technical staff, not all of whom are Muslim," says an executive of a company with meat processing units in Punjab, who does not want to be named. "The transporters are also usually non Muslim."

Still others allege the opposition to the animal slaughter industry is actually a racket. "Activists stop vehicles carrying buffaloes en route to slaughterhouses and register police complaints alleging violation of animal rights," says Beef Dealers Association's Qureshi. "The police seize the animals but pass them on to the same activists to look after as there is no lock up for cattle. In most cases, the charges do not stand up in court, but the process takes three to four years. When the trader tries to get back the animals, the groups which stopped him ask for around ₹40,000 per animal as upkeep charges. Since the animal can be sold for

only around ₹25,000 to ₹30,000, the trader prefers to forfeit it. It is then sold back into the market."

Exporters are trying their best to ignore these pinpricks and concentrate on expanding their markets. Two large, new markets are likely to be added soon – Russia and China. Russia has approved buffalo meat imports from India after its Western sources dried up, following the sanctions imposed on it by West Europe and the US over the Ukraine standoff. "India can expect \$500 million to \$1 billion increase in buffalo meat exports once shipments to Russia picks up," says Santosh Sarangi, Chairman, Agricultural and Processed Food Products Export Development Authority, a division of the Commerce Ministry, with which all abattoirs and meat processing plants have to register. So too, India and China signed a memorandum of understanding in 2013 over China providing market access to Indian meat. "It is well known that much of our meat exports to Vietnam ultimately reach China," adds Sarangi. "Direct access to China will lead to another quantum jump in exports." ♦

@ajaymodibt

FLESH AND BONE

Examining the entrails of Indian buffalo meat exports

Meat exported from India, which comprises mainly buffalo meat, is not consumed directly as a dish. It is mostly used in products such as hamburgers and sausages. Buffalo meat is lean and blends well with other ingredients in making value-added products.

The product has to satisfy the standards laid down by the Hazard Analysis Critical Control Point (HACCP), a globally recognised food safety check. Every buffalo, whose meat is intended for export, must have an identification tag to facilitate traceability if required later. It has to be rested for 24 hours – to relax its muscles, which is said to improve the quality of the meat – and examined by a veterinary doctor before being taken to the slaughterhouse. The doctor checks for diseases and pregnancy – killing sick or pregnant animals is disallowed.

"Hygiene is a priority in meat processing units," says Mohammed Ather of the Azan Group. "If hygiene is compromised, the shelf life of the meat reduces and buyers are lost." Uniformed men and women, wearing caps and gloves, de-bone the buffalo after slaughter. The temperature inside is always maintained at around 12 to 15 degrees C. The packaging is mostly handled by women, with the packed meat stored in freezers at temperatures of around minus 20 degrees C. It is taken to ports – Pipavav and Mundhra in Gujarat and Jawaharlal Nehru Port in Maharashtra are the main departure points – in refrigerated containers, where it is subject to tests in a government laboratory and issued a comprehensive health certificate testifying to its fitness.

Different parts of the slain buffalo sell at different prices. The flesh from the hindquarters fetches a better price than that from the forequarters. But flesh is not all that is sold. So too is the offal – heart, liver, kidney, etc. – albeit at a much lower price. "Offal is in great demand in China where both humans and pets consume it," says an abattoir worker. So too are the buffalo's bones and blood, which are sent to a rendering facility and processed into meat bone meal, used as poultry feed or soil manure locally. Even the fat is processed into tallow – used in soap and toothpaste – while the skin too has numerous uses.

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Last spring, food aficionado Karen Anand put together a Farmer's Market in the lawns of the luxury hotel Westin Gurgaon. Organic vegetables, bottled espresso, cheese, cold meats were in abundance; wine flowed. The Co-founder of IndiaMART.com Brijesh Agrawal, nearly as passionate about his spices as he is of entrepreneurship, picked up some *bhut jolokia*, a variety of pepper more than 200 times hotter than Tobasco sauce. He next met Navneet Rai right there to pitch a new company – according to him, an equally hot proposition.

The conversation with Rai, Co-founder of fashion e-tailer Inkfruit, acquired by Zovi in 2013, was about Tolexo. While IndiaMART is an online directory for businesses to discover suppliers and get their contact information, Agrawal was pitching a company that will be a full-fledged e-commerce marketplace for industrial finished products. He would target the small and medium enterprises (SMEs). Tolexo would list the products, the price information, facilitate online payments and track delivery.

"That afternoon, we spoke for three-and-a-half hours," says Agrawal. "We finally managed to convince each other that we will be able to build this together." Rai joined as the Co-founder of Tolexo. Harsh Kundra, the former head of technology at lifestyle e-tailer

Tooling it up: (From left) Tolexo founders Brijesh Agrawal, Harsh Kundra and Navneet Rai



SHEKHAR GHOSH

Jabong, also joined the founding team. The idea was to build a business-to-business (B2B) site but sex it up with the savvy of a consumer portal. The name 'Tolexo' doesn't mean anything – it was such a "catchy short name", says Agrawal.

Funded by IndiaMART, Tolexo Online Private Limited was incorpo-

rated in July 2014. Today, the site lists everything from safety and lab equipment to hand and power tools – it has over 600,000 stock keeping units (SKUs). The company is targeting 10 million products in the future. Its employee count is growing at a rapid pace; the firm currently has about 160 people.



A Whole New Tool Game

With its focus on industrial products, online marketplace Tolexo is tapping into an opportunity few have noticed so far.

By GOUTAM DAS

"We started in mid-August, with the alpha version. We got on to the beta version in October last year," Agrawal says, sitting in his office in Noida's industrial belt. In less than a year, the company has hit a good revenue run rate – the firm is doing more than ₹2 crore a month. "We are growing at 50-60 per cent month-on-month. Our revenue and monthly transactions are similar to what other e-commerce companies have done in their first one-and-a-half to two years.

We are already there," says Agrawal. The company does not have a single dominant category yet. "People are trying to test the platform and the experience. If you look at B2B transactions where the value runs into a couple of lakh, that may take a little bit of time," the co-founder adds.

Tolexo's fast traction points to a large market in the industrial buying segment. There are 4.7 crore SMEs that need to secure bulk supplies. "The overall industrial and business goods opportunity in India is more than \$1 trillion. The B2B wholesale market in itself is a

\$300-billion plus category," says Agrawal. Most of it is today offline, and so the challenge is to get businesses to buy online.

A large space attracts big competition. It is lurking nearby. The founders of Tolexo think AmazonSupply, the global retailer's industrial buying venture, will be in India soon. The United States has other successful companies in the industrial e-commerce space; Grainger, Inc., which had revenues of \$10 billion in 2014, is often cited as a success.

As of now, Tolexo's India competition includes the brother-sister duo of Rahul and Swati Gupta, who started *Industrybuying.com* in 2013. The company has a hybrid online-

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offline model; apart from SMEs, it finds large customers and supplies industrial products directly. Tolexo would also have to compete with other marketplaces that don't brand themselves as niche industrial buying sites. *ShopClues.com*, for instance, started a wholesale business eight months ago. Although it does not target the industrial segment, sellers have listed products such as power tools and industrial gloves on its website. "We are targeting retailers, corporate houses and families right now. However, we will not stop people from listing industrial products that are more a commodity now," says Sanjay Sethi, CEO and Co-founder of ShopClues.

The SME segment has attracted other start-ups as well, although they are not competition to Tolexo. The Gurgaon-based Power2SME sources raw materials for its customers but not finished products.

But what was the need to incubate a company separate from IndiaMART? It turns out that the DNA required to build a full-fledged e-commerce website is quite different from one that runs a directory.

"IndiaMART has a certain positioning in the market and it appeals to a certain audience. We understood that the DNA required for Tolexo would be very different – the people, the technology, the processes," explains Agrawal. People who are building Tolexo, for instance, need to know and work on both the pre- and post-ordering experience, and not just the contact experience that IndiaMART provides. "The experience can be made much more deeper by controlling it. So we tried to address the three problems that a buyer faces – convenience, selection, and pricing," adds Rai.

The founders think convenience in the B2B online segment will be the killer feature. "Ask a procurement guy the nightmare of buying from Chandni Chowk [in Delhi] and he will tell you," says Rai.



Tolexo Quick Facts



Depending on the product, a small enterprise can end up stocking goods much before the time of consumption. That's where the problem of working capital comes into the picture. "Instead of something you need just 15 days before, you end up procuring it 90 days in advance. This blocking of capital is a challenge for a small company whose turnover is not more than ₹5 crore. By providing clear delivery timelines, we help them solve this problem," he adds. The technology Tolexo has built allows forecasting of demand and matches it to the inventory sellers have.

Nevertheless, the two customers

Business Today spoke to said they found value in procuring goods that were cheaper than in the offline world. Sanjay Upreti, Purchase Manager of Radisson Blu hotel in Greater Noida, bought safety switches from Lajpat Nagar in Delhi previously and paid nearly double the price compared to shopping at Tolexo. Atul S. Shirde, Purchase Head of Mumbai-based Bharat Wire Ropes, says he has shopped at Tolexo four times thus far, buying hand gloves, industrial shoes and tools. "There is a pricing benefit. The shoes cost me two times more offline," he says.

Investors appear to be cautiously optimistic about the industrial supplies segment moving online. Is this sector ripe for disruption? "I am not 100 per cent sure. But we have to invest ahead of the curve," says Mukul Singhal, Principal at SAIF Partners. The venture capital firm recently invested \$2 million in *Industrybuying.com*. "The B2B space is a very large market with high information opacity. But the biggest challenge will be the time taken for SMEs to adopt purchasing solutions," he says. "We have to figure out if the adoption happens over the next 12 to 18 months."

The funding Tolexo would need to keep growing and compete with Amazon will, therefore, be determined by the rate of technology adoption. IndiaMART has undisclosed investments from Intel Capital and Bennett, Coleman and Co. Ltd. But Tolexo needs more – it is looking to raise \$100-150 million over the next 12 months.

"It is the market share we are chasing. We want the largest market share in the business space," says Rai. That sounds like Flipkart in its formative years. Nevertheless, it would be some time before this start-up becomes the *bhut jolokia* of industrial e-commerce. ♦

@Goutam20



Double bonanza: A retail outlet of O.C.T. Mami. The company also sells products on the Internet

Checking the traffic stats for her company's website in May 2012, Tu Wenhong, Founder of maternity wear brand O.C.T. Mami, was pleased with what she saw. Since early 2011, the company's e-commerce business had been growing rapidly, showing handsome revenues and profits. However, she still had some concerns. O.C.T. Mami's original business relied on traditional brick-and-mortar retail outlets, but the company had recently expanded into online sales channels as well. How could the company best leverage the advantages of both online and offline sales while avoiding conflicts in terms of resource allocation, positioning and pricing? Most of the company's online reve-

nues came through sales on third-party platforms such as Taobao.com. Would it be wise to depend on third-party sales channels over the long term, or should the company invest in creating its own platform? O.C.T. Mami's rapid expansion had put it on the path for an IPO (initial public offering), yet its basic strategic positioning, mission and value statements were not yet clearly defined.

Developing O.C.T. Mami

In 1997, when Tu and her husband Zhao Pu started their business, the concept of fashionable maternity wear in China was a novel idea. Purchase of high-end and well-designed maternity wear was considered unnecessary and even extravagant, since pregnant women required new maternity wear every one or two months due to their fast-



BALANCING ONLINE AND OFFLINE

EXECUTIVE SUMMARY

China's leading maternity wear brand, O.C.T. Mami, took advantage of the rising affluence of the country's consumers and their growing affinity towards consumption for fashionable goods, to build a sizeable business, selling quality products tailored for pregnant women. Then it went online through third-party e-commerce platforms. Very quickly, online sales shot up taking advantage of the medium's inherent strengths, particularly convenience of shopping for pregnant women. Eventually, the online business outstripped the traditional offline sales numbers. The big challenge facing O.C.T. Mami now is to balance online and offline sales, so that they complement each other rather than compete. There is a host of other questions, too, that needs answering.

**By LI SHANYOU, S. RAMAKRISHNA VELAMURI,
DONG LIANG, and XU LEIPING**

changing body shape, and people were in general not conscious of their appearance at that time. However, along with China's economic reforms in the 1980s, the standard of living of the Chinese people gradually improved, and their vision and attitude towards consumption and lifestyle also changed.

So, when Tu and Zhao noticed that there was an unexploited market opportunity for maternity wear, they decided to take advantage of this gap. They both quit their well-paying jobs at East China Design Institute and the Foreign Trade Bureau and set up their company – Uki Industry & Trade Co., Ltd. They opened their first O.C.T. Mami maternity wear store in Hangzhou's fashionable West Lake district, which in their opinion was

a suitable place to start. Hangzhou is the capital of Zhejiang province located in eastern China, and was one of the most fashionable and developed cities in China with one of the highest per capita income. Business at the first store was unusually brisk. In the beginning, Uki Industry & Trade

Co. was also the agent of Lego Toys from Denmark and Chicco Toys from Italy. Soon after O.C.T. Mami became popular, Tu and Zhao decided to give up the agency for the foreign brands and focus on their own brand.

Uki also took a professional management approach towards R&D. O.C.T. Mami's creative adjustable design for the chest and stomach areas made one garment fit multiple phases of pregnancy, so that consumers were willing



to pay more for a single garment. Due in part to their efforts, China's maternity wear market began to grow. In line with the business model typical for regular women's clothing, between 2003 and 2006, O.C.T. Mami began to expand across China with both owned and operated retail outlets and franchisees, making it the market leader in China's maternity wear sector. Thereafter, along with the growing idea of "healthy, comfortable, sexy, and fashionable" maternity wear and the continuously high concern of radiation, O.C.T. Mami introduced newly-developed radiation-proof products, which further enhanced its sales performance.

O.C.T. Mami spent lavishly on brand promotion. In 2007, as a small company with annual revenue of 70 mil-

to its target consumers, O.C.T. Mami also became involved in charity projects, such as publishing books and making videos about caring for pregnant women.

By June 2011, O.C.T. Mami had more than 600 stores (over 200 own outlets plus over 300 franchisees) nationwide, with annual sales of RMB 600 million (\$93 million) and a 20 per cent market share, making it the leading brand for maternity wear. The annual sales revenue of the second-largest brand was less than one-fourth that of O.C.T. Mami. Venture capital firms Sequoia Capital China and Pegasus Capital became strategic investors of Uki in October 2011. At the time of signing the contract, Sequoia Capital urged O.C.T. Mami to go public before 2015, but Zhao insisted on postponing the IPO schedule to 2016, due to his plan of building up the online platform and solidifying the foundation of the brand.

Online Breakthrough

Beginning in 2010, alongside the rapid advancement of logistics, payment and Internet technologies, China's online sales channels had undergone qualitative changes. Tu was well aware of the need for the business to keep up with these advancements.

"Among our 600 outlets nationwide, a majority is located in large cities; we have limited influence in small- and medium-sized cities," she says. Instead of going out to shop frequently, pregnant women prefer the convenience of online shopping



In 2007, O.C.T. Mami roped in actress Dee Hsu as a brand ambassador in a bold advertising strategy that turned out to be a success

lion RMB (\$9.6 million), it signed an expensive endorsement deal with Dee Hsu, a popular actress from Taiwan, and focused all its media investment in subway video advertising. The bold advertising strategy turned out to be a success. Dee Hsu was a well-known "Spicy Mother", and her sexy and fashionable image matched O.C.T. Mami's market positioning very well. The celebrity effect also broke the low recognition of maternity brands, enabling O.C.T. Mami to distinguish from other brands. Through innovative brand promotions that included sponsoring entertainment programmes and creating useful informational materials for pregnant women, O.C.T. Mami endeared itself

on the computer or mobile devices. O.C.T. Mami's strong brand presence offline can also have an influence on consumers shopping online. An advantage of physical stores is that the sales staff can offer recommendations. But online platforms can offer consumers a variety of photos and videos to assist them with their purchasing decisions. Due to rent and labour costs, it is difficult for offline sales channels to offer large-scale promotions. It is more cost-effective to do sales promotions through online platforms.

Tu moved enthusiastically into the online business. O.C.T. Mami launched its website, www.octMami.com and also opened branded online shops on well-established

e-commerce platforms such as Taobao.com, JD.com, Dangdang.com and Amazon.cn. Tu handled everything from product positioning and pricing to ad buys and promotion planning. "Every night after my family goes to bed, I am up looking at the e-commerce websites, staying abreast of what our competitors are doing and thinking about how to stay ahead of them," she says.

The newly-organised online business team for O.C.T. Mami was drawing on its years of experience in offline marketing and putting itself in the shoes of consumers to find new ways to continue to optimise the brand. The team had hit its stride and was finding it very efficient to cooperate with third-party service providers such as logistics companies.

When launching its online business, O.C.T. Mami went to great lengths to implement integrated marketing solutions. The company leveraged its endorsement deal with actress Dee Hsu to mount the "O.C.T. Mami – S-sized Women" Talent Show and "Baby on Board" Badge Launch Ceremony together with China Women's News and Eladies.sina.com.cn. These campaigns received much attention from online and offline media and consumers. O.C.T. Mami also created useful informational branded products for pregnant women. It received a lot of attention for its hip-hop song, short movie and ring-tone-themed 'Here comes an Expectant Mother', which was available for download. The 40,000-copy print run for the first O.C.T. Mami pregnancy book, *Care for Pregnant Women*, quickly sold out. Subsequent print runs followed and it set a sales record for books on pregnancy and delivery. It also became a must-have promotional gift on e-commerce platforms. O.C.T. Mami launched a pregnancy calendar mobile app that provided detailed information to guide women through the various stages of pregnancy. The company also created the Baby Face mobile app that helped predict what a baby's face would look like. These informative and entertaining apps were instant hits with consumers.

O.C.T. Mami's online business developed rapidly. Its monthly sales in 2011 rose from RMB 28,000 in January to more than RMB 5 million in September and more than RMB 10 million in November. It had taken the company's offline business five years to reach these same milestones.

Online Challenges

Since 2012, China's e-commerce sector has progressed in fits and starts. Though she was eager to establish a clear niche for O.C.T. Mami's online business, Tu had yet to iron out the strategic issues for the entire brand.



How would you face O.C.T. Mami's challenges?

Post your comments at businesstoday.in/casestudy-octmami



The best response will win a Harvard Business Press Pocket Mentor. Previous case studies are at

businesstoday.in/casestudy

Though they both serviced the same brand, the company's online and offline businesses were in conflict in terms of sales channels, product positioning and pricing. In spite of performing well, the traditional offline retail business was being considerably outpaced by the fast-growing online business due to limited resources. Rising costs and shrinking profit margins were particularly an issue for the traditional retail stores. Not only was the online business now larger, it was generating substantial profits. Tu believed that although the offline business would not die out or be completely replaced

by the online business for the moment, strategies and policies needed to be tilted to favour the online business. Nevertheless, the company needed to find the right balance between the two business models. Would O.C.T. Mami eventually become an online-only brand? If not, how should the company address the strategic imbalance between the online and offline sales channels?

Despite its large size, the online business remained reliant on third-party e-commerce platforms. Should O.C.T. Mami spend more resources to create its own e-commerce platform? Tu was worried that few e-commerce companies had ultimately survived in this fast-evolving sector. Was setting up an independent platform just a dream or a feasible business plan? When was the best time for the company to begin channelling more resources into creating its own online platform so that it could survive and thrive?

Tu was also concerned that the company's vision, mission and values were not yet clearly established. Should the company aim for scaling up further or operate as more of a low-profile business organisation? The lack of a clear corporate vision, mission and values was making it difficult for O.C.T. Mami to establish a credible talent strategy, and Tu was conscious that this could hold the company back. Apart from a shortage of external talent, it had long faced a mismatch between existing talents and corporate needs. Generous rewards offered to new employees would likely be wasted if their service to the company failed to live up to expectations. How could the company set out a clear vision, mission and values that not only demonstrated a human touch, but also met the organisation's need for sustainable development?

Li Shanyou, Adjunct Professor of Entrepreneurship; S. Ramakrishna Velamuri, Professor of Entrepreneurship; Dong Liang, Case Writer; and Xu Leiping, Research Fellow at China Europe International Business School (CEIBS).

O.C.T. MAMI NEEDS TO MOVE TO SINGLE-PRICE, SINGLE-PROMOTION FOR BOTH OFFLINE AND ONLINE

O.C.T. Mami is a very successful maternity clothing retailer, prominently displayed at over 600 large city retail stores built over the past 15-plus years and widely advertised via a strong celebrity endorsement from Dee Hsu, well known in China as 'Spicy Mother', throughout city transport metro stations.

By late 2011, O.C.T. Mami was experiencing a rapidly-growing online business, breaking into new customer segments of small- and medium-sized city locations, while achieving a milestone of RMB 10 million monthly sales numbers in months, a figure that had taken the offline business five years to achieve. Retail in China is very, very competitive and one could only expect that while sales were strong and distribution was widespread, offline margins were already declining by end of 2011.

Unlike the US or Europe, where marketplaces like eBay or Amazon account for less than 15 per cent of total e-commerce revenue, China was dominated by the Alibaba marketplace (70 per cent of e-commerce in China), while brand-only e-commerce generally struggled to carve out more than a small minority of any brand's online sales.

On the Chinese e-commerce marketplaces, promotions are rampant, pricing is lower, and the marketplace management often greatly influences brand positioning, promotion and pricing control. Participation in Alibaba's famous cyber holiday, Single's Day, often expects brands to offer discounts of 50 per cent or more or lose out on valuable visibility, and the resulting sales.

There are clearly benefits to developing a brand's own e-commerce website (closer client relationships, better understanding of online buying behaviour, pricing and promotion control, etc.), but the costs of owning and operating are high relative to the likely low sales volumes. If brands hoped to achieve any substantial e-commerce sales volume in China, the marketplaces were not



T.R. HARRINGTON

Founder and Chief Strategist, Darwin Marketing, Shanghai

"In the Chinese e-business, promotions are rampant, pricing is lower, and market management often influences brand positioning, pricing control"

an option but an absolute channel necessity.

Strategically then, the question was how best to leverage these marketplace channels while maintaining strong brand identity and customer relationships. Given the success of O.C.T. Mami's pregnancy book, the brand seems well positioned, along with the ongoing endorsement of Dee Hsu, to reach and engage its target audience both in offline retail and online.

Brands that focus on using their websites not just as e-commerce destinations but instead as a customer hub for target-user communities, such as providing expectant mothers and families with valued educational informational content or advice, and likewise leverage their retail locations not just as stores but as location-based customer touch points, should be able to maintain stronger customer understanding and relationships.

Offline stores provide valuable brand awareness, trust and a customer touch point that may be a key differentiator against online-only competitors. Further, transforming retail from transactional to experiential, such as hosting location-based events to share knowledge and expertise around maternity, could also help maintain their knowledge and brand leadership in maternity.

In terms of offline-meets-online strategies, Chinese electronics retailer Suning has been among the largest in China in terms of managing the tricky balance and eventually moving to single-price, single-promotion for all channels, both offline and online, which is exactly where O.C.T. Mami needs to move in the near future.

While it is still possible to negotiate with franchisees to follow their integrated offline-meets-online strategies, one thing O.C.T. Mami may need to strongly consider in future is taking back control over franchisee retail locations as Starbucks and others have in recent years in order to implement single-price, single-promotion cross channel without experiencing ongoing channel friction.

O.C.T. MAMI'S SUCCESS DEPENDS ON ITS ABILITY TO DEFINE A MISSION AND VISION

The dilemma before the O.C.T. Mami management is not unique. Multichannel companies find themselves at a crossroads when their online sales share becomes significant and starts impacting offline performance. The advent and growth of the digital revolution in the last decade has brought about one of the biggest changes in consumer shopping behaviour globally. This has led to an almost disruptive growth of online shopping. Embracing the online channel, like O.C.T. Mami has done, is a prudent decision for any consumer facing organisation, which will keep it relevant in the changing consumer paradigm.

Multichannel retailing is basically aligning the business with the cross-channel consumer behaviour to offer a seamless experience. Globally, players in more mature e-tail markets have successfully adopted strategies such as Brick and Clicks and Click and Bricks to leverage their online and offline channels. O.C.T. Mami has the advantage of an extensive network of stores and it should look at defining an integrated strategy where roles of both its offline and online channels are clear and complementary. For example, using stores as fulfilment/return and experience centres, using online for new launch feedback, allowing consumers to get access to product reviews, check product availability in a particular store online, etc. It is not necessary that in the evolving retail environment, the format and role of all its stores remain the same, especially in those geographies where online traction is high. Technology will play a big role in this integration.

While third-party multicategory sites can remain important



PRAGYA SINGH

Associate
Vice President -
Retail, e-tailing
and Consumer
Products,
Technopak

in terms of reaching out to a broad base of consumers and be volume drivers, there is always a risk and unrealised potential associated with being just another player on a multicategory, multibrand portal. Eventually, O.C.T. Mami can look at pushing its own portal for direct and higher customer engagement in a decluttered environment for more flexibility, control and multichannel integration.

The second issue faced by the company needs more internal deliberation. O.C.T. Mami has done well so far in identifying a market opportunity and gaining market leadership in its space through product innovation and marketing initiatives. With the recent relaxation in the one-child policy in China, the market can continue to be attractive for O.C.T. Mami. However, having reached a considerable scale, it is imperative for the player to chalk out a clear path for itself, especially with an impending IPO. While a company is small it can be guided by the promoter's vision, but once it achieves a critical size it is important that its purpose and values are laid out through vision and mission statements. The company's business and talent strategy will then be guided by these statements, which will help it plan for short- and long-term objectives.

While technology implementation can be challenging, an equal, if not bigger, challenge for a retailer is often implementing a mindset change. O.C.T. Mami should view itself as a multichannel player rather than viewing online and offline businesses through separate lens. The success of the company will depend on its ability to define and imbibe the organisation's vision and mission along with a sound multichannel strategy. ♦

"It should look at defining an integrated strategy where roles of both its offline and online channels are clear and complementary"

Starting the Digital Transformation Journey

As the pace of change accelerates, organisations are trying to digitally transform themselves. Their playbooks may differ but the core rules are the same, finds out **Chitra Narayanan**



From putting up digital chandeliers to creating a workspace where the design, brand and digital teams come together to co-create, Starwood is rewiring the way it works

Bang in the middle of New York's hip and happening garment district, where creativity flows through fashion studios, hospitality major Starwood Hotels and Resorts has set up its new collaborative workspace. Hanging from the ceiling of this 46,000 sq. feet bi-level 'Starlab' are digital chandeliers on which live feed from Twitter

streams continuously. Employees just can't miss the tweets above their heads – the social listening post has gone broadcast.

Starlab is the hub of the company's digital transformation. Here, its IT, design, digital, brand, legal and HR teams work together using technological tools to transform the company and customer experience. "A cross-matrix team is at the heart of

Starwood's digital transformation," says Chris Norton, Vice President, Customer Relationship Management and Channel Intelligence, Starwood. At Starlab, innovations such as keyless entry into hotel rooms using mobile phones and use of beacons to welcome guests into hotels are taking shape.

As the tech wave sweeps through the world, every organisation is



See interview with Adobe's John Mellor at businesstoday.in/adobe-mellor

struggling to cope with stuff like the Internet of Things, wearables and an algorithm-driven environment. Digital transformation is the new big consulting opportunity for firms like Accenture, IBM and Capgemini. What should be the new organisational structure in a digital era, what are the right tools to embrace, what should be the digital vision – these are some questions that companies are asking and hiring consultants for.

That's because of the new complexity creeping into the digital space. As Rahul Welde, VP, Media for Unilever Asia, Africa, Middle East, Turkey and Russia, says: "Digital has become a complicated ecosystem." Whether it is social, mobile or Big Data, you would struggle to map such giants in a chart.

John Mellor, VP, Strategy and Business Development at Adobe, says there is no one playbook. The digital flood swept companies off their feet

customers were on digital platforms and 65 per cent of these interactions were through mobile."

While some organisations started with social media engagement in digital, others changed their internal structures. For instance, some companies created new positions called Chief Digital Officer or Chief Experience Officer reporting to the CEO and a new team to wire up the organisation with new systems and ramp up digital capability among employees. In several companies the marketing department is where the initiative first began. Only later did it seep in that the whole organisation needed to be rewired.

Today, whatever their level of digital maturity, most companies find themselves at crossroads and are now drawing up the roadmap properly. So, how would companies do it if they had to start all over again?

The Entry Point

If there was one ideal entry point to get into digital transformation, it would be through analytics, feels Mellor. "Analytics is like turning the

lights on in a dark room. It helps you see the path ahead."

dos. A consensus is that digital has to seep into the DNA of every single employee and percolate from leadership down. This is why GSK's President Emma Warmsley says she took her leadership on a digital safari, and is investing in training employees in digital capability.

Once the people have been invested with capability, the next step is to create and share a digital transformation vision. It's important not to get distracted by the next shiny technology on the horizon. "Technology for its own sake is a common trap," warn Westerman, Bonnet and McAfee. Instead, the focus should be on business outcomes or the customer.

Rob Roy, Head of E-commerce and Digital at Time Warner Cable, describes how changing the culture of the organisation is a major challenge during the journey. But if you keep the customer at the focus of the change, it gets easy. "We are really focusing on how customers can touch us any point in time. We built our roadmaps together focusing solely on the customer," he says.

A consensus is that digital has to seep into the DNA of every single employee and percolate from leadership down



before they could put in place formal systems. For instance, banks were forced to invest in mobile-compatible websites when they found more and more clients accessing banking services on phones. As Todd Copeland, General Manager, Digital, National Australia Bank, described during the Adobe Summit: "We found that 90 per cent of our interactions with our

lights on in a dark room. It helps you see the path ahead."

While that does sound logical, a new book *Leading Digital: Turning Technology into Business Transformation* by George Westerman, Didier Bonnet and Andrew McAfee, says: "There is no single right way to start digital transformation. What matters is that you find the existing capability – your sweet spot – that will get your company off the starting blocks."

The entry points and the routes that companies are following may be different, but there are some must

The other pitfall in digital transformation is creating too long a roadmap. The digital world moves quickly so planning for "sprints" rather than "marathons" should be the approach – quite the reverse of conventional planning.

In fact, the biggest rule that companies on this transformative journey have found is to throw out the rule book. ♦

Part of the reporting was done at the Adobe Summit in Salt Lake City, US. Adobe sponsored the trip

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In our epic drive from Stuttgart to Pune, we cross some treacherous mountain passes in the Himalayas and pay homage to Mt Everest on our way home

The drive through China was one of the most challenging parts of the drive as it included crossing the barren and dry desert region in the west, skirting the Gobi desert and then turning south on to the Tibetan plateau which included crossing some of the highest mountain passes in the world. On the very first day, it was so cold that even the diesel available in the region froze. On the second day we

stayed at the small town of Amdo which is at an altitude higher than most towns in Ladakh, a big challenge for both man and machine. From then on it was high mountains and even higher mountains, culminating in reaching the highest mountain in the world, Mt Everest – one of the best sights in the world. The GLA despite being front wheel drive made it through most of the challenges that China threw at it including driving

kilometres on end on ice covered roads but the worst roads were still to come in Nepal. Temporary paths with boulders across mountains with fine mud greeted us and it was a huge relief that we made it across Nepal into India. You can watch our journey in two episodes on HEADLINES TODAY @ 1:30pm on the 7th and 14th of March.

Yogendra Pratap
Twitter: @YogenPratap

The GLA after a 15,000km journey stands in front of the highest mountain in the world, Mt Everest



Treacherous mountain roads in Nepal with fine mud covering rocks and boulders (left) were in sharp contrast to smooth tarmac across China with massive sand dunes in the background (centre) and a rare straight road cutting across the Tibetan plateau (right).

EXCERPTS FROM AUTO BILD INDIA



Dealing with youth: (From left) Wipro's Sunita Cherian; Google's Arijit Sarker; Sripada Chandrasekhar of Dr. Reddy's Labs; Shamni Pande of BT; Facebook India's Bharat Jayaraman; Rajita Singh of Broadridge Financial Solutions (India); and Ramanand Puttige of Cyient

ALIGNING ASPIRATIONS

Leading HR executives from Hyderabad, Chennai and Bangalore discuss ways to deal with age and gender diversity at workplace, and also how to handle a mobile workforce. **By E. KUMAR SHARMA**



It was a Friday evening with a difference. Padma, a banquet hall at the Trident hotel in Cyberabad, the IT hub of Hyderabad, was packed to capacity on February 13. The reason: It was playing host to the *Business Today* Knowledge Forum on Human Resources (HR). The event involved two panel discussions, each moderated by Shamni Pande, Senior Editor at *BT*. Both sets of panellists were introduced by Alokesh Bhattacharyya, Deputy Editor at *BT*, who urged them to be frank and feel free to differ.

The first panel, comprising Sunita Cherian, Vice President – HR and Global Head – Diversity and Inclusion, Wipro; Arijit Sarker, Director, India Operations, Google; Bharat Jayaraman, HR Lead, Facebook India; Sripada Chandrasekhar, President and Global Head of HR, Dr. Reddy's Laboratories; Rajita Singh, Head HR, Broadridge Financial Solutions (India); and Ramanand Puttige, Vice President – Business Fulfillment, Cyient, discussed how companies are dealing with Generation X and Y at the workplace.

Wipro's Cherian said it is important to get the new generation into the



For videos of the discussions, log on to
businesstoday.in/hrforum-hyderabad2015

workplace as a "newer version of anything is better". It was equally important to have a collaborative work environment between generations at a workplace to ensure best results for an organisation, she added.

"I was Gen Y to my grandfather," said Chandrasekhar of Dr. Reddy's Labs, who wanted to go beyond the description of a Gen X or Y. The real point, he said, "is that people evolve almost every five years... I am the same individual, but not always the same generation". He felt that differences will exist and it is mature and wise to be both sensitive and emphatic about them.

Most Internet companies, such as Google and Facebook, have a largely Gen Y employee base, so one has to make a conscious effort to represent that view during the hiring process, felt Google's Sarker. It is important "to hire great talent, give them an environment that they have an ease with, and then get out of their way".

For Facebook India's Jayaraman, it is important to hire talent that has ambition and potential, and not just get out of their way to let them perform, but also ensure there is transparency within the organisation on the next best or the next cool new initiatives it is looking at. "It is all about making sure people know about the opportunities and they always have something better and cooler to look forward to because that is the world we want to represent and the products we want to build, and you have that here."

Cyient's Puttige felt that aspirations differ from person to person, and it is really about catering to the needs of that person rather than classifying individuals into Gen X or

Gen Y. Referring to the Enron example and a culture that did not allow differences to come up, Puttige said there is a need to get organisational processes that help people to cope as well as express themselves better.

Chandrasekhar believed that "people work for professions and not for companies". "If I want to be a research scientist in pharmacology, there is no sense for me to work in Google unless they invest in medicine and research..." Companies, he felt, must allow "career resilience" beyond their environment because professions will outlast companies and people have to build careers across companies. Gen Y, he said, has a world of choices. "At home, they are treated with greater love, affection and freedom and if managers don't give them the same at the workplace, they will feel miserable."

For Jayaraman, managing differences lay in not burying them, but in getting them into the open and having hard conversations.

Cherian, referring to a recent survey at Wipro, said the key drivers for people joining the workforce today were still around two questions: Career growth and the learning and development that they get in an organisation.

The second panel discussed the challenges involved in handling an increasingly mobile workforce. The panellists included Gopalji Mehrotra, Senior VP - HR, Ashok Leyland; Anu Zachariah, Managing Director, DDI India; Kumar S. Krishnaswamy, Group Head - HR, Medwell Ventures; Sibsankar Bandyopadhyay, Head HR, Paperboards & Specialty Papers Division at ITC; and T. Karunakar, VP -



Workforce challenges: (From left) DDI India's Anu Zachariah; ITC's Sibsankar Bandyopadhyay; Gopalji Mehrotra of Ashok Leyland; BT's Shamni Pande; T. Karunakar of Apollo Hospitals, Hyderabad; and Kumar S. Krishnaswamy of Medwell Ventures



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Golf Digest INDIA



Sunita Cherian, Wipro
"It is important to get the new generation into the workplace as a newer version of anything is better. Equally important is a collaborative work environment"

Arijit Sarker, Google
"It is important to hire great talent, give them an environment that they have an ease with, and then get out of their way"



Bharat Jayaraman, Facebook India
"Managing differences lay in not burying them, but in getting them into the open and having hard conversations"

Sripada Chandrasekhar, Dr Reddy's Labs
"... People evolve almost every five years... I am the same individual, but not always the same generation"



HR, Apollo Hospitals, Hyderabad.

Mehrotra of Ashok Leyland referred to a four-point formula, that is, hire the best that you can, pay them as much as you can afford, give them an environment that helps them perform, and develop them to the best of their capability. After that, he said, people will inherently be mobile. "Do what you can and don't worry about what you cannot control."

DDI India's Zachariah asked: "When we select, when we hire, when we promote, plan careers and successions apart from 'fit-for-the-job', are we also listening to what location-fit or mobility-fit looks like, what motivates an individual? Not many companies have a planned strategy."

ITC's Bandyopadhyay said that, based on his experience, most people hired like to be involved in a project-kind of an

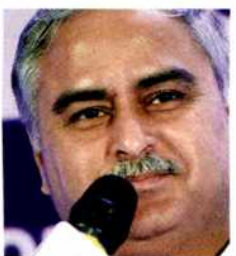
assignment with specific accountability and objectives. But this may not always work in a group-kind of environment in manufacturing.

Krishnaswamy of Medwell Ventures emphasised on the importance of building trust among potential employees, especially if they come from remote locations—getting them ready to move and to be prepared to learn something new.

Apollo's Karunakar felt success lay in planning mobility, and here one could also involve families of the employees and spend time with them to match their expectations. "This helps in knowing the challenges in advance."

SRM University was the presenting sponsor of the conclave. ♦

@EKumarSharma



Gopalji Mehrotra, Ashok Leyland
"Hire the best, pay them as much as you can afford, give them an environment which helps them perform, and develop them to the best of their capability"

Anu Zachariah, DDI India
"When we select, hire, promote, are we also listening to what motivates an individual? Not many companies have a planned strategy"



Sibsankar Bandyopadhyay, ITC
"Most people hired like to be involved in a project-kind of an assignment with specific accountability and objectives..."

T. Karunakar, Apollo Hospitals
"Success lies in planning mobility, and here one could also involve families of the employees and spend time with them..."





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Dinesh Malkani, President, India and SAARC, Cisco Systems

Teeing off in Style

Nearly 90 executives took to the course recently at the Bangalore edition of *BT's* golf event. By **UMA KANNAN**



Individual winner: Wipro's N. Nanda Kishore (right) receiving his prize in the 0 to 10 Handicap category from Srikanth Babu Alladi of Lloyd Electric & Engineering

A week after Mumbai's Willingdon Sports Club played host to 80-plus executives at the *Business Today* Lloyd Pro-Am of Champions 2015, nearly 90 corporate honchos converged at the Eagleton Golf Resort off the Bangalore-Mysore highway for the event's second leg on February 28. The enthusiastic golfers teed-off at 8 a.m. on a sunny Saturday.

For Kalyan Ganguly, President and Managing Director of United Breweries, the event was an opportunity to meet new and interesting people. And for Carl Dujardin of XSYSYS Technologies, "it was a well-organised tournament".

N. Nanda Kishore, Vice President, Business Outcome

Services, Wipro, won the 0 to 10 Handicap category, with a massive total of 41 points. Interestingly, he has been playing golf regularly for almost a decade now. "I came with a lot of positive energy and it was a very good fourball that I played with," said Kishore, who received a standing ovation when he won.

Other individual winners were Praveen Singhvi, MD of Mulder (India), in the 11 to 18 group, and A. Keshava Murthy, MD of Sumukha Enterprises, who topped the 19 to 24 category. For Singhvi, golf is a great stressbuster. "We enjoy more when we play with better players," he said.

Murthy started playing golf only a year ago. And of the six tournaments that he has participated in



Winners all: Participants who came out on top in various categories



Tarandeep Singh,
Partner and Engagement
Practice Leader,
Aon Hewitt

so far, he has won an impressive four, including this one. He was also part of the runners-up team comprising G.S. Ravi, CEO of Chemizol Additives, Chetan Meda, Chairman of Eagleton Golf Resort, and Anand Kumar Ashiya, Partner of Moksh Agarbatti.

The winning team featured Rajat Chanchani, Director of Ceebros Automation, Ajay Gopal, Chairman of Ajaxdotcom, Srikanth Gonuguntla, Consulting Director in Oracle Financial Services, and Jawahar Doreswamy, CEO of PES Institutions. Srikanth Babu Alladi, General Manager and Business Head, South, Lloyd Electric Engineering, gave away the prizes.

Among the prominent corporate bigwigs who participated in the



Varun Berry, Managing Director,
Britannia Industries



Individual winner: (From left)
Praveen Singhvi of Mulder (India), who
won in the 11 to 18 Handicap group, Kalyan
Ganguly of UB Ltd, Accenture's Mohan
Sekhar, and Aricent's C.P. Murali

event were Anees Ahmed, CEO of Mistral Solutions, C.P. Murali, President of Aricent Technologies, Dinesh Malkani, President, India and SAARC, Cisco Systems, Mohan Sekhar, Senior MD of Accenture, Pradeep Kar, Chairman and MD of Microland, Tarandeep Singh, Partner and Engagement Practice Leader at Aon Hewitt, and Varun Berry, MD of Britannia Industries.

Lloyd Electric & Engineering, India's eminent consumer durables company, was the principal sponsor of the event, which was powered by Raymond. Ballantine's was the beverage partner, 4moles.com the digital partner, NEO Sports the TV partner, Creatigies took care of marketing, and the media partners included *Golf Digest* and *Mail Today*. ♦

Turning your flat screen into a smart TV is easy. Here are a few smart fixes to bring the World Wide Web to your living room.

By NIDHI SINGAL



AJAY THAKURI

PLUG AND PLAY SMART

Can you stream YouTube videos and browse the web on your TV, or download apps and play games on it? Well, the fast-evolving world of television technology could even reduce your latest acquisition, say, a flat panel full HD TV, to an outdated piece of furniture in just over a year. But don't lose heart. It is just about time to smarten up your TV with a few smart add-ons. You

may not be able to match up to the next phase of innovations, such as the 4K smart TV, but there are alternatives that can bring smart functionality and the Android OS interface to your drawing room. In fact, it could be a smart money move to upgrade your existing set, considering the high premium you pay for 'smart' or 'connected' TVs. But before you start, ensure you have a high-speed Wi-Fi connection to add more zing to your viewing experience.

LAPTOP

If you don't mind a few wires running around, the simplest way of converting your TV into a smart one is to connect it to your laptop. All you need is HDMI ports in both the TV and the laptop, and an HDMI cable. Once you connect the two, whatever is displayed on your laptop will be streamed to the big screen. However, you might have to get up again and again to operate your laptop. A simple solution to this is to plug in a wireless mouse. If you need to type text to browse the web or update your Facebook status, consider using a wireless keyboard.



Digital Living Network Alliance

DLNA is a wireless technology that allows you to play content between two connected DLNA-enabled devices. The technology is not restricted to any brand or product, and has become an industry standard adopted by most brands.

MHL cable

₹500 onwards

If you are not sure about how wireless technology works, there is a way to connect your Android smartphone with your TV using the MHL cable. Just connect one end of the cable to the micro USB port of the phone or the tablet, while the other end goes into the TV's HDMI port. Simple and easy. The phone's screen will mirror on the big display. This doesn't require any app. It is mostly used to play videos and view images on the big screen.



SMART BOXES

It is true that you can do a great deal by plugging in your laptop, tablet or smartphone to your TV set. But here's another convenient, yet independent, way to get going. Welcome to the world of smart boxes. They are compact and much smaller compared to your standard set-top boxes streaming digital content. Just remember that not all smart boxes are the same. You must find out what you need before buying one.



Amkette EvoTV

₹6,000

The new-generation Amkette EvoTV Android Central (AC) and Amkette EvoTV Android Media Center (MC) allows you to seamlessly stream movies, watch your favourite matches and download games. It has four USB ports. Navigating is easy as it comes with a sensor-based controller.



Apple TV

₹5,900

The main purpose of Apple TV is to stream videos from websites, such as YouTube and Vimeo, with content from partners. If you belong to the Apple ecosystem, you can even play music and movies from iTunes. It also allows users to mirror the computer or phone's screen on their TV sets.



Samsung Evolution Kit SEK 1000

₹17,000

Although the Evolution Kit SEK 1000 is restricted just to Samsung products, it promises to bring in the latest features to your recently-purchased smart TV. It is compatible with the company's LED ES7500, ES8000 and ES9000 series, and PDP E8000 series.

DONGLES

Smart boxes sound interesting, but involve wires. Therefore, if you wish to go wireless and for even more affordable solutions, consider getting a smart dongle that plugs into the TV's HDMI port and works with an app over Wi-Fi. There are many media streaming sticks available online, but the ones we have featured here are the best of the lot.



Google Chromecast

₹2,999

After a long delay, Google's Chromecast has been officially launched in India. It works with the Chromecast app available for smartphones. Simply plug it into your TV's HDMI port and then control it from a smartphone, tablet, or laptop. You can stream favourites from Google Play, YouTube, Netflix and Chrome to the TV with the press of a button. The Chromecast isn't restricted to just Android smartphones. There is a Chromecast extension for the desktop browser. Using the "cast" button on top of the page, YouTube videos will be played directly on the TV. It can also mirror the laptop display.

Micromax Smart Stick

₹5,999

A compact USB-shaped device from Micromax. It can be used to surf the Internet, stream videos on YouTube and connect with your friends on social networks through your Smart TV. The Smart Stick has got a 1 GB DDR3 RAM and ARM Cortex A5 clocked at 1 GHz. Weighing 40 grams, it runs on Android Ice Cream Sandwich and plugs into an HDMI port.



Teewe

₹1,999

It is a small wireless device that plugs into the TV's HDMI port, but requires additional power source to work. A micro USB wall adapter has been added to the box that can be connected to a plug socket. Even the USB port on the TV can power the dongle. Like other dongles, even this one works with an app.

Teewe is available for iOS and Android smartphones. The smartpone needs to be connected to a Wi-Fi network to pair it with the device. This dongle allows one to stream YouTube videos, or one can even watch the content that is stored on the phone. A strong, fast and uncluttered Wi-Fi network works best for Teewe to operate.



Cheap, But Not the Best

The second-generation Moto E justifies its price tag, but it isn't the best smartphone under ₹10,000. By NIDHI SINGAL

When it was launched last year, Moto E turned the sub-₹10,000 price segment upside down. Motorola has now announced its upgrade, which has an improved design and hardware. The design looks very similar to Moto X (2nd Gen).

It boasts a 4.5-inch screen with 570x960 pixel resolution, which is crisp and offers good sunlight legibility. It has curved edges and the rear has a soft touch finish. The rear panel is non-removable, and the dual SIM slots, along with the memory card slot, are hidden under the band. As the phone is available only in black and white variants, Motorola allows you to change the colour of the 'band' (available in golden yellow, turquoise, blue, raspberry, purple and red), giving it a cool look.

The Moto E is powered by a quad-core Snapdragon 200 processor clocked at 1.2 GHz, and is paired with 1 GB RAM. It runs on Android Lollipop (5.0.2) and is one of the few devices running on this operating system. Thanks to the OS, the three capacitive touch icons have a geometrical design – triangle for back, circle for home and square for multitasking. It has a plain vanilla interface. The multiple running apps, too, appear differently and can be closed by simply sliding.

When I used it for the first time, it asked me to add a Google account. When I did that, it showed me options such as Assist, Action and Display. Under Assist, one can select one's sleep time and during that time, the phone will be on silent mode and the screen will be off. Similarly,

BAG IT OR JUNK IT:

While the Moto E (2nd Gen) justifies its price tag of ₹6,999, it loses the battle to Micromax's YU Yureka that costs ₹9,999

RATING: 3.5/5

PLUS: Price

MINUS: Performance



when in meetings, it shows the auto reply option to missed calls using a personalised message. The Action setting automatically turns on the camera when the wrist is turned twice. The Display showcases the notifications even when the phone's display is off. There is also an option to hide the notification details and only show the notification icons.

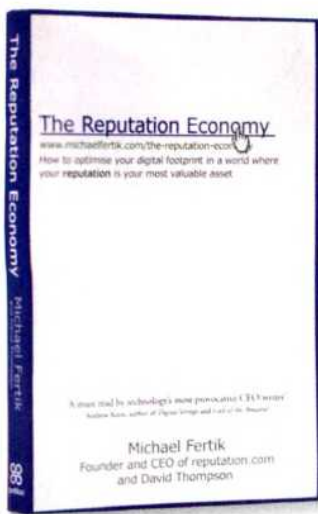
Motorola has increased the onboard storage to 8 GB, of which 5.03 GB is user accessible. The 5 MP rear camera with tap-to-focus does a decent job. Although the overall performance is decent, I felt some lag while launching new apps and switching between the running ones. ♦

@nidhisingal

Master the Art of Self-branding

Your reputation online is fast becoming a major component of your identity. The book talks about how to transform yourself into a star of search engines.

By SANJAY MEHTA



The Reputation Economy

By Michael Fertik

PAGES: 256

PRICE: ₹350

Hachette

From VIP offers at hotels to getting very high insurance premiums, one's online reputation matters a lot

Imagine walking into a hotel for the first time and being immediately greeted by the concierge, who ushers you directly to a VIP check-in station. He offers you a drink while your room keys are being prepared. The desk clerk asks if you'd like a complimentary upgrade to a corner room. Of course, you accept, but you wonder, "Why me?"

The clerk explains that his computer noticed that on the basis of your online comments and your travel history, you have very high scores for brand loyalty and social sharing – and that his computer expects you to continue to be well-off for many years. When you booked your reservation, all of this was calculated automatically, transmitted wirelessly to the front desk, and used without your knowledge or consent.

This visualisation is from the book *The Reputation Economy* by Michael Fertik and David Thompson. Michael is a leading authority on digital reputation and privacy. He is the founder of reputation.com and has been credited with pioneering the field of Online Reputation Management (ORM). If someone can talk about the reputation economy, surely Michael can!

From VIP offers at hotels to getting very high insurance premiums, one's reputation is a double-edged knife that cuts both ways. As Michael emphasises, reputation is power! And always was. Except that what has changed today is a massive aggregation of information, and along with the aggregation, there is the ability to store and analyse extremely large amounts of data in real time to create a variety of interpretations. It lead to decisions!

Thanks to the many powerful digital tools now available, anyone can potentially access very large amounts of data about you – your finances, your professional as well as personal networks, your shopping habits, even your behaviour patterns, at any time. And what's more frightening is that, all of this data can be rapidly and accurately analysed, generating results that simply make your reputation your most critical currency.

What this can do, for example, is to deny you a loan, or get you a job interview that you did not even know about, or have a date standup on you! Insurers denying you coverage on the basis of your online activity, employers deciding whom to hire or promote based on computer-driven analysis, or mobile phone apps that allow instant background checks at bars! So the big data about you, and it's rapid and detailed analysis, generates your "reputation scorecard".

So does this book stop at bringing out this reality, or does it also give some take-aways beyond that? Call them cheat sheets or useful tips, the author exploits the ways and means that a reputation is figured out by the tools, and basis which, gives useful pointers to "beat the system" and ensure that your reputation comes out looking clean and powerful. For example, he suggests:

- ◆ How to tweak your resume and your LinkedIn profile to get best job offers
- ◆ Tips and tricks that can get you VIP treatment at hotels and banks
- ◆ How to manage your online and offline presence
- ◆ How to "hide" the negative information about you

Overall, the book is a must-read for the times that we live in. And not just if you're a professional or a celebrity, but for just about everyone! ◆

The author is Joint CEO of Social Wavelength.

Transcending the Past

The book talks about personal transformation as a key to change and leadership. By SANDIP GHOSE



How to Help An Elephant Make a U-Turn

By G.K. Jayaram

PAGES: 263

PRICE: ₹500

Maven | Rupa

Dear Jayaram, I am taking the liberty of calling you by your first name since in the author's note you have invited the reader to 'talk to you' (over a mellow drink) rather than simply 'read' the book. Actually that's a novel way to have a lesson on leadership.

I picked you up at the Higginbotham's in Chennai Airport during a long layover between flights. Over the years I have become a bit wary of books on leadership with every other superannuated executive writing a book. But, the green jacket held my attention and what caught my eye were the words "transformational change". Flipping the pages I found another term "transcendental leadership". So, is this guy talking of personal transformation as a key to change and leadership? – I asked myself and there you got me hooked.

I was fascinated by the concept of RORE – 'revolution of rising expectation'. What could be more relevant for a country of young people like ours waiting to break free in the world. It is an empowered generation with a mind of its own, who believes in its abilities and think it's not less than equal to anyone – what you call PROBE (Promise in and Belief of Equality). The challenge is as much for the business leader as it is for the societal and political leadership in how to harness this energy and transcend the past.

I am glad that you have taken the concept beyond the narrow framework of corporate organisation to society at large. Today's leaders must recognise this shift in attitude and aspirations of the young who want to reach the top solely on merit. Frankly, I don't care much for the testimonials and interviews you have laced the book with. They came across to me as your 'Infy' Groupies or the Bangalore Club cronies who intrude into our quiet chat at the Bar. Though overladen with the quotes and excerpts from other leadership classics, it was a great idea to bring in examples of the Anna movement and the fall of the Indian 'poster-boy' of corporate America to bring home the importance of integrity, intensity and imagination in your model of transcendental leadership. It's easy to understand why Narayana Murthy calls you the "quintessential, friend, philosopher and guide". Warmly,

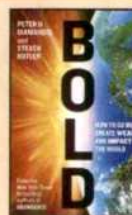
Sandip

PS: Hope you have gifted an autographed copy to the Prime Minister. And, even Arvind Kejriwal could do with one so that he can "transcend" his past mistakes and provide transformational leadership. ♦

The author has over two decades of leadership experience in consumer goods and media industries. Follow him on twitter @SandipGhose

BOLD: How to Go Big, Create Wealth and Impact the World

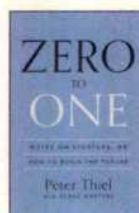
THE FORTNIGHTLY PICK



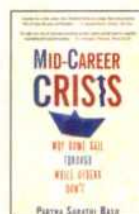
By Peter H. Diamandis
Simon & Schuster
Price: ₹599

It talks about the technologies that are disrupting businesses and psychology of those who use them to create wealth

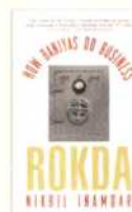
BUSINESS BESTSELLERS*



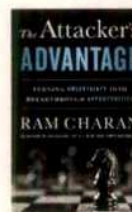
Zero to One
By Peter Thiel and Blake Masters
Random House
Price: ₹499



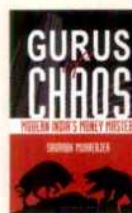
Mid-Career Crisis
By Partha Basu
Harper Collins India
Price: ₹299



Rokda
By Nikhil Inamdar
Random House
Price: ₹199



The Attacker's Advantage
By Ram Charan
Public Affairs
Price: ₹799



Gurus of Chaos
By Saurabh Mukherjee
Bloomsbury
Price: ₹350

*Top books by sales for Mar 1-14; includes only books released after April 1, 2014. Information provided by amazon.in

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eBay, Inc
Director Large Merchant PayPal
Location: Mumbai
Job ID: 15756776
Description: Partner closely with local and regional teams to develop a robust value based approach to both existing and prospective large merchants in relation to our proposed domestic business.



Manokam
GM-Production
Location: Baroda
Job ID: 16299422
Description: He will be responsible for managing all shop floor production activities & managing plant work force efficiently.



Quotient Consultancy
Training & Development - Head/ Mgr
Location: Bilaspur
Job ID: 16576503
Description: To plan and coordinate all training Programmes as per the objective of the Institute with the help of co trainers, Managers and Supervisors.



Cadila Pharmaceuticals Limited
Sr. VP Operations
Location: Ankleshwar
Job ID: 16552893
Description: Overall responsible for effective Production, Engineering & EH operations of Unit I & Unit II Plant at Ankleshwar.



CareerNet Technologies Private Limited
Head of Data Sciences
Location: Delhi, Noida
Job ID: 16630332
Description: Deep understanding and working knowledge of regression and machine learning techniques used for predictive analysis.



Jobsplan
Deputy General Manager - HR
Location: Mumbai
Job ID: 16592919
Description: To ensure the recruitment and selection strategy and processes facilitate the recruitment of good quality candidates and support the organisation strategy objective to be a world class organisation.



WaterHealth India Private Limited
Head - Talent Acquisition
Location: Hyderabad / Secunderabad
Job ID: 16533354
Description: Screen profiles as per the requirement, schedule Interviews and finalize the selected candidate after thorough negotiation.



NTTF
Lead Trainer - Mining Sector Training
Location: Bellary, Tumkur
Job ID: 16068287
Description: The Lead Trainer has to provide leadership, advice and direction to Trainers.

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Microchip Technology, Inc.
Senior/Principal Applications Engineer
Location: Bengaluru / Bangalore
Job ID: 16606387
Description: Hands on experience in testing the hardware that meets the latest specifications/standards.



Onward Technologies Limited
Engineer - Pro-e - IT Support
Location: Pune
Job ID: 16627257
Description: 2-3 years of experience in supporting Pro/E applications: (IT related activities).



Cvent India Private Limited
Sr. Engineering Manager/Sr. Dev. Manager
Location: Gurgaon
Jobs ID: 16506603
Description: Manage Specification, design, development, and debugging of scalable and high-performance service-based web applications.



Amadeus Software Labs India Pvt Ltd
Senior Software Engineer
Location: Bengaluru / Bangalore
Job ID: 15921393
Description: Build and Release, Continuous Integration activities for Amadeus applications / products developed using the backend platform and middleware components.



Tech Mahindra Limited
JAVA - WTX
Location: Chennai
Job ID: 16628952
Description: Knowledge on message standards involving ANSI X12 ,UN EDIFACT ,Flat File , Delimited file , IDOC.



Ikya Human Capital Solutions Private Limited
SiteMinder Admin
Location: Hyderabad / Secunderabad
Job ID: 16477118
Description: Person should be working as a Siteminder Admin, LDAP skill should be there handson.



Oracle India Private Limited
Java OOD Cloud SaaS - Oracle IDC
Location: Bengaluru / Bangalore
Job ID: 16388863
Description: Work with cross-functional team members from Architecture, Product Strategy & Development, QA, Sales & Services, and other Central teams to improve performance and scalability of multiple products.



Polaris Financial Technology Limited
Java Professionals
Location: Mumbai
Job ID: 16593151
Description: Must have Core Java(server side), J2ee Design Pattern, Multithreading, Springs skills.

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 CitiusTech

CitiusTech
MBA- Marketing Manager
Location: Mumbai
Jobs Id: 16604126
Description: Supports and enhances corporate branding (incl. defining corporate branding guidelines, consistency of logo/usage) and branding for key CitiusTech solutions – BI-Clinical, Register4Health, etc.



Mukand Limited
DGM-Marketing
Location: Thane
Jobs ID: 16600217
Description: Provide leads and guide team for finding new markets, Identification and allocation of resources.



CRY-Child Rights and You
Associate General Manager – Individual Partnerships
Location: Bengaluru / Bangalore
Job ID: 16598647
Description: Define the retention and acquisition growth strategy for the market. Establish and manage alliances and partnerships etc.



ABC Consultants Private Limited
Sales Manager
Location: Jalandhar
Job ID: 16595189
Description: Maintain Client relationship for the employees mapped to the RM and ensure implementation of Sale Management Process.



Catalyst Consulting Services
Sales Executive
Location: Kolkata
Job ID: 16594663
Description: Should be hard working, Good sales knowledge (Tubes & Pipes), Franchise Development etc.



Photon Interactive Private limited
Business Development Executive / Sale Executive
Location: Chennai
Job ID: 14694127
Description: Making outbound cold call to targeted list of prospects, Pitch Photon' value proposition for outsourcing and onsite consulting work to companies in the US.



RS Consultants
Sales Engineer
Location: Pune
Job ID: 16582682
Description: To target Industries in and around Pune/Western Maharashtra. Extensive field work required to visit Industrial areas for inquiry Generation.



Career Avenues India Private Limited
Sr.Sales Executive
Location: Mumbai
Job ID: 16580848
Description: Provide regular, satisfactory and effective Sales Services to the Market, Retailers, and Distributors, and meet the given sales target within the deadlines.

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Strivex Consulting Private Limited
Manager - Indirect Tax
Location: Delhi, Gurgaon
Job ID: 16604143
Description: Compilations and preparation of submissions and details in respect of indirect tax matters (Service Tax) of the company.



Accys Management Services Private Limited
Executive - Accounts Receivables
Location: Gurgaon
Job ID: 16604496
Description: Preparation of Accounts Receivables / Payable Statements, Debtor/creditor/vendor reconciliation.



Janya It Technologies Private Limited
Accounts Executive
Location: Hyderabad / Secunderabad
Job ID: 16600140
Description: Good knowledge in accounting concepts and statutory aspects, Working Knowledge in Tally (Mandatory).



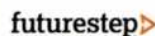
Golden Opportunities Private Limited
Finance Analytics
Location: Chennai
Job ID: 16320299
Description: Analytics Manager Be accountable for Financial analytics practice-processes execution, transformation, business growth and governance.



KRM Global
Data Collection Executive
Location: Bengaluru / Bangalore
Job ID: 16595583
Description: Would be reporting to Data Collection Manager, Would be allotted visits to the sites.



Vitasta Consulting Private Limited
Manager-General Ledger
Location: Navi Mumbai
Job ID: 16629189
Description: To oversee the operations of the GL Processing Team up to 5 employees on a daily basis so the FSSC operational excellence.



Futurestep Recruitment Services Pvt Limited
Accounts Payable Processor
Location: Gurgaon
Job ID: 16527572
Description: Prior experience in an accounting operation using a major ERP (Oracle/SAP/other) system is highly desirable.



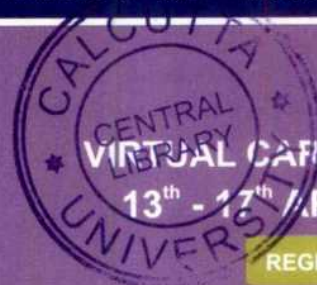
Mphasis Limited
Analyst - Indirect Taxation
Location: Bengaluru / Bangalore
Job ID: 16111405
Description: 3-6 years' experience in Preparation of Service Tax Input Register, Checking of Invoices, Payment with Service Tax Credit Register etc.

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Trailblazer

She became a CEO in a male-dominated mutual fund industry in India. And now **ASHU SUYASH** replaces another woman and hardcore rating professional Roopa Kudva as the head of CRISIL, the leading rating agency. The 47-year-old finance professional boasts a strong background of setting up businesses from scratch. She did it for Fidelity in India, which was later sold to I&T. Suyash will face challenges at CRISIL because she is an outsider. Moreover, Standard & Poor's wants to align CRISIL, its Indian unit, with its global goals. Also, the ratings business has increasingly come under the scanner after the global financial meltdown. CRISIL has witnessed several exits and reshuffles, and so Suyash, who has two grown-up daughters, clearly has her plate full.

ANAND ADHIKARI



Ashu Suyash
MD & CEO-designate, CRISIL

RACHIT GOSWAMI

Back in the Hunt

The *enfant terrible* of the Indian IT industry is now ready with his new project. Also known for his midas touch, **PHANEESH MURTHY** is back with an online pharmacy venture called, what else, PM Health and Life Care. After a controversial exit from the NASDAQ-listed iGate, Murthy had laid low for some time before floating his VC firm called PM Ventures. Earlier, Murthy, after a similar controversial exit from Infosys, had floated Quintant, a BPO firm which iGate eventually acquired. Some of the investors in Quintant, like 'Tiger' Ramesh, the CEO of CSS Corp., will also invest in PM Health and Life Care. Murthy will be its Chairman, while his former iGate colleagues Hemant Bhardwaj and Anil Bajpai will be the CEO and CTO, respectively. The new company is raising \$10 million – including \$2 million from Murthy's own VC fund – and will initially roll out in 10 cities.

VENKATESHA BABU

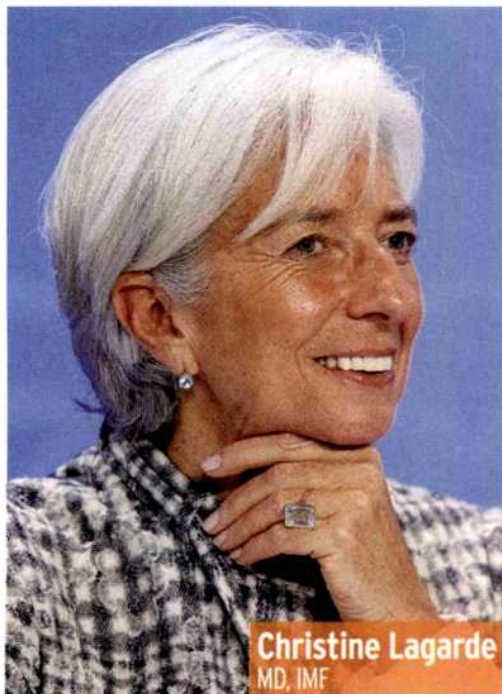


Phaneesh Murthy
Chairman, PM Health and Life Care

Be Bold

CHRISTINE LAGARDE is known for demanding bold actions from policymakers, and that was her message to India on a recent visit. Speaking on *Seizing India's Moment* at a college in Delhi, the head of the International Monetary Fund (IMF) said that India must carry out structural reforms – such as the overhaul of the subsidy framework, implementing Goods and Services Tax, and making labour laws more flexible – to achieve its true potential. The first woman to run the IMF also spoke about India racing ahead of the world, with a projected 7.5 per cent growth rate. Most importantly, however, she cautioned emerging economies like India on the fallout of a stronger US dollar and higher global interest rates.

SHWETA PUNJ



Christine Lagarde
MD, IMF

GETTY IMAGES

Out and About

When **HARISH MANWANI** stepped down as COO of Unilever, he made it clear he would live an active life post-retirement. True to form, he has now joined US private equity giant Blackstone. Manwani is credited with bringing about a consumer centric and go-to-market approach at Unilever that helped the company, perceived as laid-back, to grow by leaps and bounds in the past decade. His 38-year global management experience at the Anglo-Dutch FMCG major will surely come in handy as he now advises Blackstone's portfolio companies across the world.

AJITA SHASHIDHAR

Harish Manwani
Global Executive
Advisor, Blackstone



Dayanidhi Maran
Former Telecom Minister

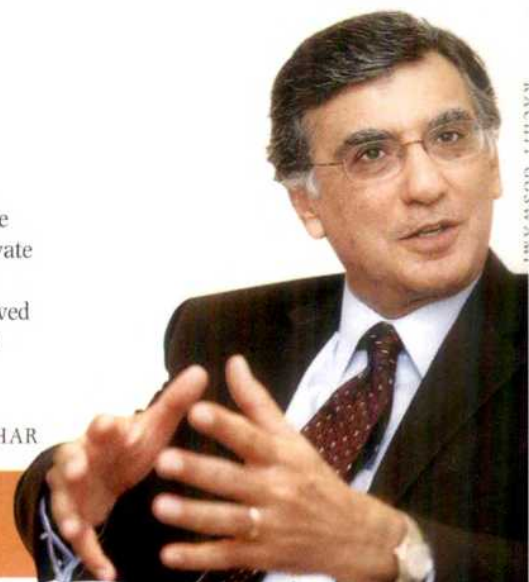


Kalanithi Maran
Executive Chairman,
Sun TV Network

Fighting Spirit

The Maran brothers are contesting allegations of their involvement in the Aircel-Maxis deal in 2006 tooth and nail. Both **KALANITHI MARAN**, Executive Chairman, Sun TV Network, and former telecom minister **DAYANIDHI MARAN** recently filed petitions challenging the jurisdiction of a special 2G court that had summoned them after the CBI's chargesheet against them on their alleged role in the deal. The special court had been constituted to deal with 2G scam-related cases and cancellation of 122 telecom licences allotted by the Department of Telecommunications. In February, the Supreme Court refused to intervene in the matter. The CBI alleges that Dayanidhi had "pressured" former Aircel chief C. Sivasankaran to sell his company to the Maxis Group in return for an investment in Sun TV.

MANU KAUSHIK



THOMAS AGOSTINI / GETTY IMAGES



Rajiv Srivatsa, Co-founder of online furniture retailer Urban Ladder, speaks with **Ajita Shashidhar** about the difficulties the company faced and its expansion plans, among other things. Excerpts:

What kind of challenges did you face and how did you overcome them?

The product wasn't available, the supply chain was broken, customers didn't have trust in buying furniture online and there was low market expertise. It's not that we have overcome the challenges completely. Everything is still in works... We are more a product brand than a marketplace. In a marketplace, one can take his hands off when it comes to quality by saying the supplier holds the responsibility. We can't, as this category revolves around product quality.

How many pieces of furniture did you manage to sell in the first year?

We sold less than 100 products in the first year. It was a challenge in the first year... We actually launched all-India, but rolled back to just three cities (Bangalore, Mumbai and Delhi)... There was a challenge in products, in suppliers. The suppliers wouldn't entertain us, as we were nobody.

Why did you chose to be a vertical player and not a horizontal one that sells many categories of products?

In horizontals, there are a few clear winners. There is no point going after a price war or [play] an assortment game. There is no differentiation you can do. Vertical seemed to

be the only long-term proposition to build a sustainable business. There was also a massive consumer need for furniture. We would rather go after something where there is a strong need than trying to manufacture a need.

Branded furniture has never done well, even in the offline space. Wasn't that a concern when you decided to go in for online branded furniture?

Furniture is a heavy, big product. Since the real estate costs are so high, the companies try to price up the product, so less consumers buy [it]. We believed that online will come and serve that part the best. The question was if consumers will buy furniture online. But in the last three years, if the industry has grown from zero to ₹1,000 crore, it essentially means Indians are leapfrogging. The offline economics don't hold well.

How do your logistics costs compare with that of horizontal players?

Our logistic cost is higher as our products are bigger. A Snapdeal or Flipkart can do 100 deliveries a day, but we can't do more than 10. The margins are higher compared to horizontal players. The average ticket size of our products is ₹20,000. Horizontals work on razor-thin margins. ♦

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Graphiti:
Clearing the
Minefield

FOCUS

Bearing the Brent

The steep fall in global crude prices may have helped contain inflation and the fiscal deficit, but it has been hard on Indian oil producers and refiners.

By NEVIN JOHN

Treacherous path:
Workers at Cairn India's
Barmer field



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9

SATYAM'S TRUTH

WHAT: Final verdict in Satyam Computer scam

WHEN: April 9

WHERE: Hyderabad

WHAT TO LOOK FOR: With the final verdict, the biggest accounting scam yet in India draws to a close. Satyam Computer Services Chairman Ramalinga Raju confessed to inflating revenues of his company, defrauding investors. The CBI has put the fraud at ₹14,000 crore, double the amount Raju had confessed to. All the accused are now out on bail.

12

DOING BUSINESS WITH GERMANY

WHAT: Hannover Messe

WHEN: From April 12

WHAT TO LOOK FOR: Prime Minister Narendra Modi and German Chancellor Angela Merkel will jointly inaugurate the trade fair. The CEO delegation will include Cyrus Mistry (Tata Sons), Vishal Sikka (Infosys), A.M. Naik (L&T) and Arundhati Bhattacharya (SBI). Also, 300 Indian companies will be the exhibitors at the five-day event themed around Make in India. India seeks German investment in sectors such as energy, electronics and smart cities.



AIJAY THAKUR

9 - 11

GOA BECKONS

WHAT: Goafest, the advertising sector's annual springtime festival

WHEN: April 9-11



WHAT TO LOOK FOR: This is the 10th anniversary of Goafest. There is a 50 per cent jump in entries for the Media Abbies compared to last year. The list of speakers includes Ted Lim, Chief Creative Officer, Dentsu-Aegis Network, Asia-Pacific; Alan Moseley, President and Creative Officer, 180, Amsterdam; Neil Stewart, Head of Agency, Asia-Pacific Region, Facebook; and Guy Abrahams, Marketing Officer, ZenithOptimedia.

17 - 19

FOCUS ON ECONOMY

WHAT: IMF-World Bank meetings

WHEN: April 17-19

WHERE: Washington DC



WHAT TO LOOK FOR: Thousands of government officials, civil society organisations, participants from the academia and private sector gather for the spring meetings to discuss progress on the work of the International Monetary Fund and World Bank as well as the global economy, international developments, and the world's financial markets.



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BROWN MAN'S BURDEN

"Initially, we talked about the Bill only in English, which was hard for several of our MPs to understand"

Nitin Gadkari, Minister for Road Transport, Highways and Shipping, explains why several MPs of his own party were opposing the land Bill, in *The Indian Express*.

ADDING DUBIOUS HONOUR TO INJURY

Thomas Piketty, the bestselling author of *Capital in the Twenty-First Century*, is not having a great time. First, Matthew Rognlie's critique of his theory of rising wealth inequality seemed to be gaining acceptance as the most credible challenge yet to the most riveting economic theory of the last decade. It does not help that Rognlie is a 26-year-old student. Then, *Prospect* magazine readers voted Piketty among the world's top 10 thinkers, alongside comedian Russell Brand.



A FLOWING STREAM



Shawn Corey Carter, known by his stage name of **Jay Z**, bought Swedish music streaming company Aspiro for \$56 million. Weeks later, the company is valued at \$250 million, reports *Business Insider*. The American rapper re-launched Aspiro's main streaming site, Tidal, at a recent press conference in New York, which was also attended by Beyonce, Kanye West, Daft Punk, and Jack White. Tidal gained 100,000 paying subscribers after the re-launch. It had just 35,000 before Jay Z acquired Aspiro. But, despite its vaulting valuation, Jay Z's best decision could still be marrying Beyonce.



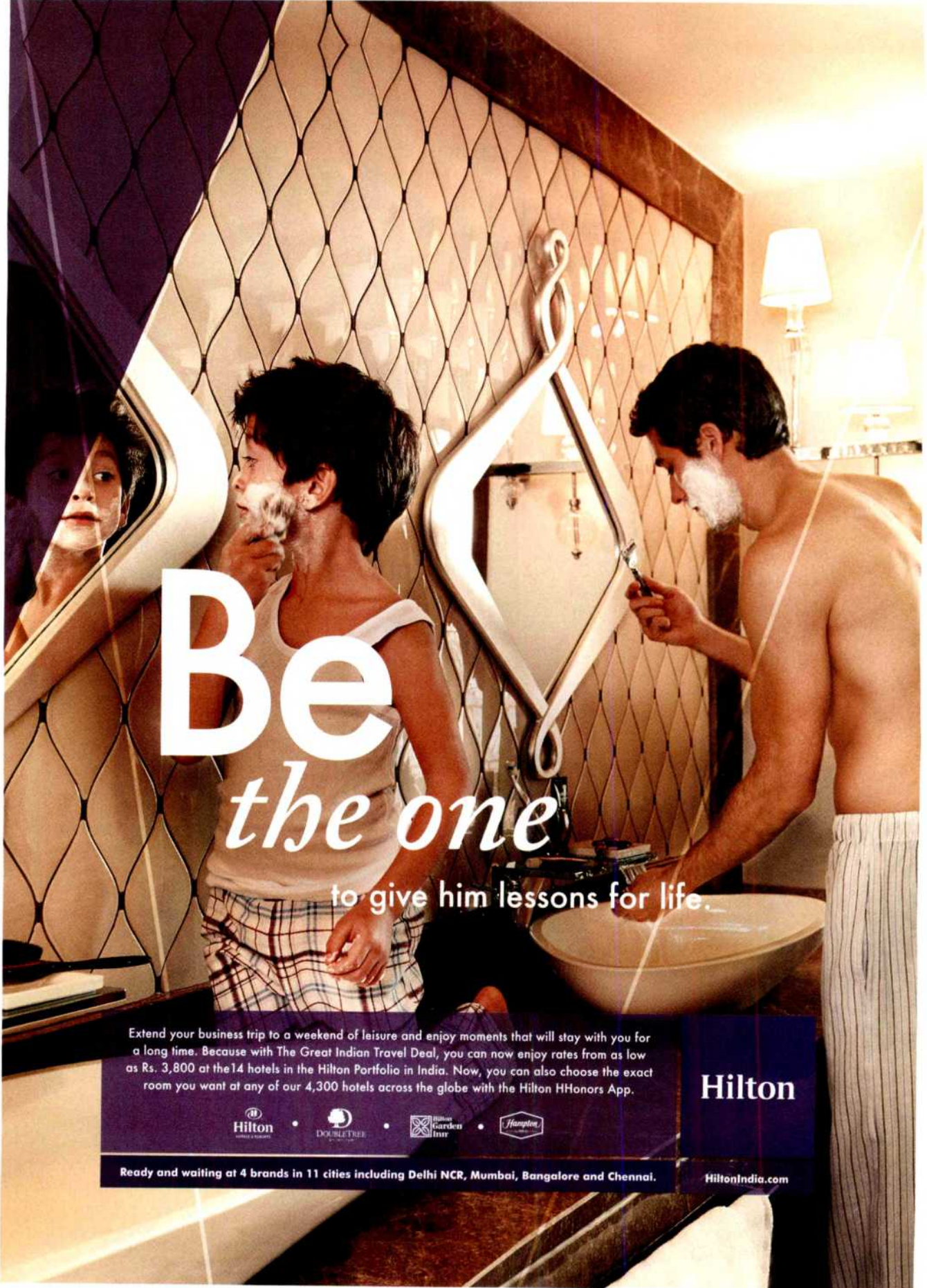
VOICE OF SANITY

"Big corporate infrastructure players have also taken too much debt. The required national push to finance infrastructure should not override financial stability, which is key to national security"

RBI Governor Raghuram Rajan warns against over-leveraging infrastructure companies.

IN GOD'S KITCHEN

The Delhi and District Cricket Association's last meeting, in December, had been disrupted when 60 people barged into the meeting room at the Ferozeshah Kotla stadium. The meeting was to discuss alleged financial irregularities by some DDCA directors. The meeting was adjourned. This time, for their April 1 meeting, they chose a safe venue, reports *Mail Today*, and met at the Govinda's restaurant in the ISKCON temple in East of Kailash, New Delhi. This time, the two-hour meeting had to put up with only some shouting by some of the DDCA directors.



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"Our approach to innovation is holistic"
Navroze Godrej of Godrej & Boyce tells Ajita Shashidhar that design and innovation are much more than just thinking of products.
businessstoday.in/godrej-navroze

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Transforming App Development

Bikram S. Bedi of Amazon Web Services explains how mobile app developers can use the cloud to differentiate their products.

businessstoday.in/amazon-bedi



NEWS

Tatas' Big Bet

Tatas foray into Big Data and Digital Healthcare.
businessstoday.in/tata-bigdata

Sugar Control

Abbott launches glucose-monitoring device for doctors.
businessstoday.in/abbott-glucose

Surprising Surge

Airline traffic jumps in the first two months of 2015.
businessstoday.in/airline-traffic2015

BT COLUMN



Trade-in for non-iPhones

Nidhi Singal explains Apple's scheme for mobile users to trade their Android, Windows, and BlackBerry phones for a new iPhone.
businessstoday.in/mydigitallife

An IMPACT Feature

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Interview with Baba Kalyani

"I am not going to wait for orders... I will put in money to build these plants, create these capabilities"

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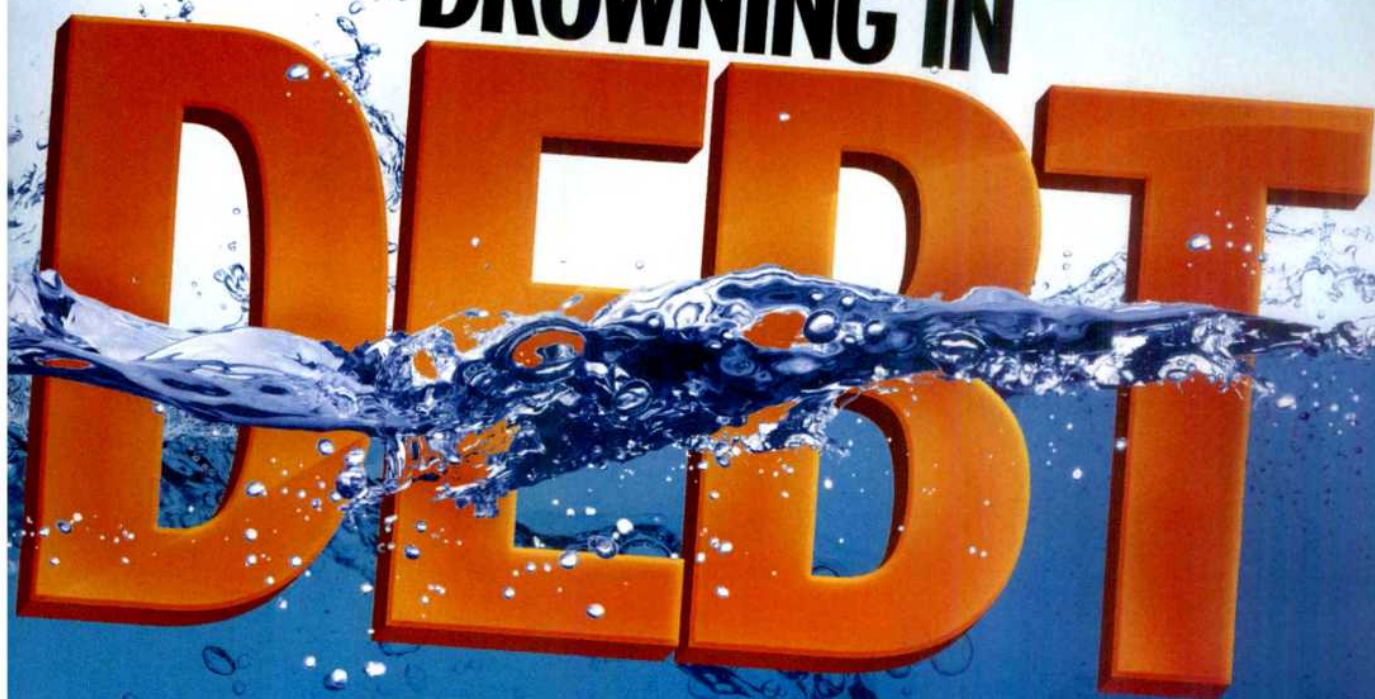
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COVER STORY

50

DROWNING IN

DEBT



Corporate India's borrowings have more than doubled in the past four years. It could slow down the economic recovery



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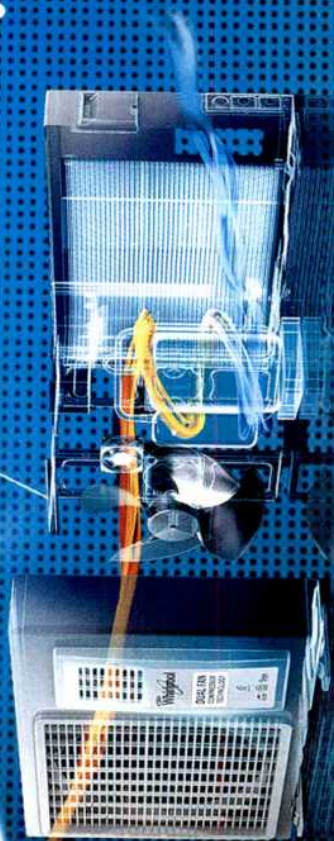
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Giving Back to the Society

This refers to your cover story on angel investors (*The New Angels*, April 12). It's heartening to know that first-generation entrepreneurs are finding experienced professionals to back their ideas. This will not only help them get a strong footing but also allow them to explore and innovate further. The story lists a host of successful individuals who have turned angels and, surprisingly, all of them

sound like philanthropists willing to give back to the society by supporting young and bright minds. However, this story is also about an asset class, namely, start-ups. I expected some key lessons as an investor who is looking to invest in start-ups. That's missing.

Abhinav P., New Delhi

Role Model of Social Business

This refers to the interview of Nobel laureate Muhammad Yunus (April 12). It provides fresh insights into the microcredit sector with straightforward views and convincing comments of the Grameen Bank founder, who has innovatively devised a model of social business. The microfinance sector must be completely guarded by an inclusive legislation. Also, corporate social responsibility initiatives should also address this segment in India. There should be a dedicated licensing of new banks to cater to the poor people. Creation of a centralised watchdog with a fund for such banking outlets and microfinancing services of others will ease the constraints of

credit extension, reduce the scope for exploitation and stimulate the welfare of the deprived.

B. Rajasekaran, Bangalore

No Need for Women Reservation

This refers to a small piece in your Upfront section (*Women on Board*, April 12). The SEBI rule that all listed companies need to have at least one woman director on board is unnecessary. In fact, there should not be any special privilege for women. They are now more liberated than before. They compete as equals with men, and do exceptionally well in most walks of life. More women should come forward to take on new challenges. We hope that the society and the state will help them to attain success but not through reservations, as it means they are not fit to be in the position. And that is not desirable from the point of view of efficiency and success of the women themselves, as well as the society and the nation.

Mahesh Kapasi, New Delhi

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Infosys to give up to nine per cent salary hike to employees for financial year 2016 to check attrition.

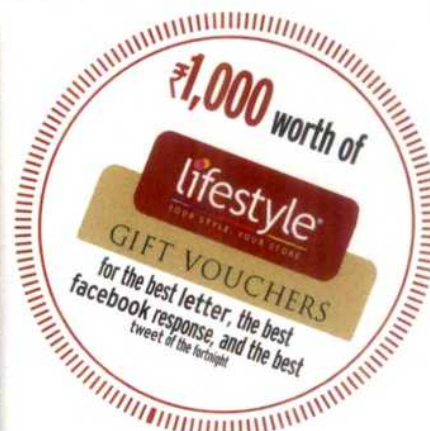
But that's not a good percentage. - **Raghavendra Chuncha**

Narcissistic leaders like Steve Jobs are more successful: says Study.

So was Napoleon Bonaparte... and he ended badly. - **Jim Harrison**

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India is cheapest country if you are earning in dollars, but not in rupees. - **Kamlesh Oza**



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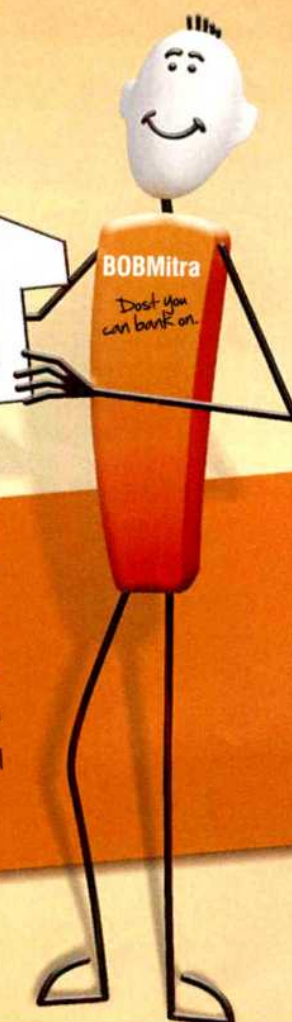
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From the Editor

Debt Wish

India's corporate debt problem has now reached alarming proportions. The Reserve Bank of India has pointed this out from time to time. A recent IMF Working Paper, published in December 2014, made the same point. Non-financial corporates in India have been on a borrowing spree since the global financial crisis of 2008. Between March 31, 2001 and March 31, 2008, the IMF paper points out, the BSE sensex rose almost fourfold, while the value of BSE-listed entities went up almost ninefold. And therefore, equity issues became the preferred method of raising funds. Also, though a significant amount of debt was raised during this period by businesses, the overall rise in revenues and profitability ensured that debt-to-equity ratios remained under control, and debt servicing was never a problem.

Post-2008, most corporations relied on debt rather than equity for their funding needs. Easy availability of bank credit was one reason for this. The lacklustre equity markets were another. But what went unnoticed was that corporate balance sheets were becoming increasingly stressed. Post-2012, the Indian economy slowed quite sharply, but corporate borrowings showed no signs of coming down. A *Business Today* study of listed and unlisted companies shows that their debt has more than doubled in the past four years.

The infrastructure sector especially was on a borrowing spree. Power and roads were the flavour of the season, and a number of business groups bid for projects and liberally took on leverage. But there were others as well. Telecom companies bid frenetically for licences and spectrum, and borrowed heavily in order to pay for these. Aviation firms were also borrowing heavily as were firms in metals, minerals and other sectors.

The problem was that quite a few businessmen had not planned for things going wrong in their sectors. To be fair, the problems of the last few years of the UPA-II government were difficult to anticipate. The policy paralysis, the fuel-linkage problems for power firms, the issues with land acquisition – all hit infrastructure projects. But while these were external factors, many companies got into trouble because of overambitious projections or bad decisions. Too many hotel companies ran up losses as they had expanded faster than they could service their debts. Companies like Kingfisher went bust because of wrong business decisions.

The result of all this is that stressed assets of banks are rising, while many companies have been selling off their assets to try and reduce their interest payouts. But getting the corporate debt situation under control will take time. It may slow down the economic recovery because there are too many borrowers in the market looking to sell off assets to cash-rich companies. If cash-rich companies buy these built-up-but-distressed assets instead of investing in fresh projects, the investment cycle may get delayed. And any delay in the investment cycle does not augur well for the government.

In our cover story this issue, Managing Editor Rajeev Dubey looks at the debt problem in detail. But all the news on the debt front is not bad, he points out. There are also quite a few companies that have been extremely prudent in their borrowing. And these are the ones poised to take most advantage of the current situation.



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Vol. 24, No. 8, for the fortnight April 13-26, 2015.
Released on April 13, 2015.

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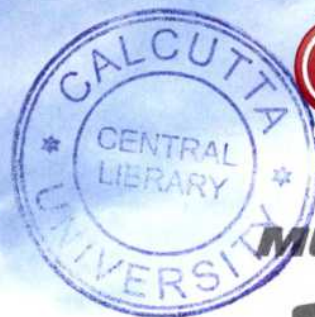


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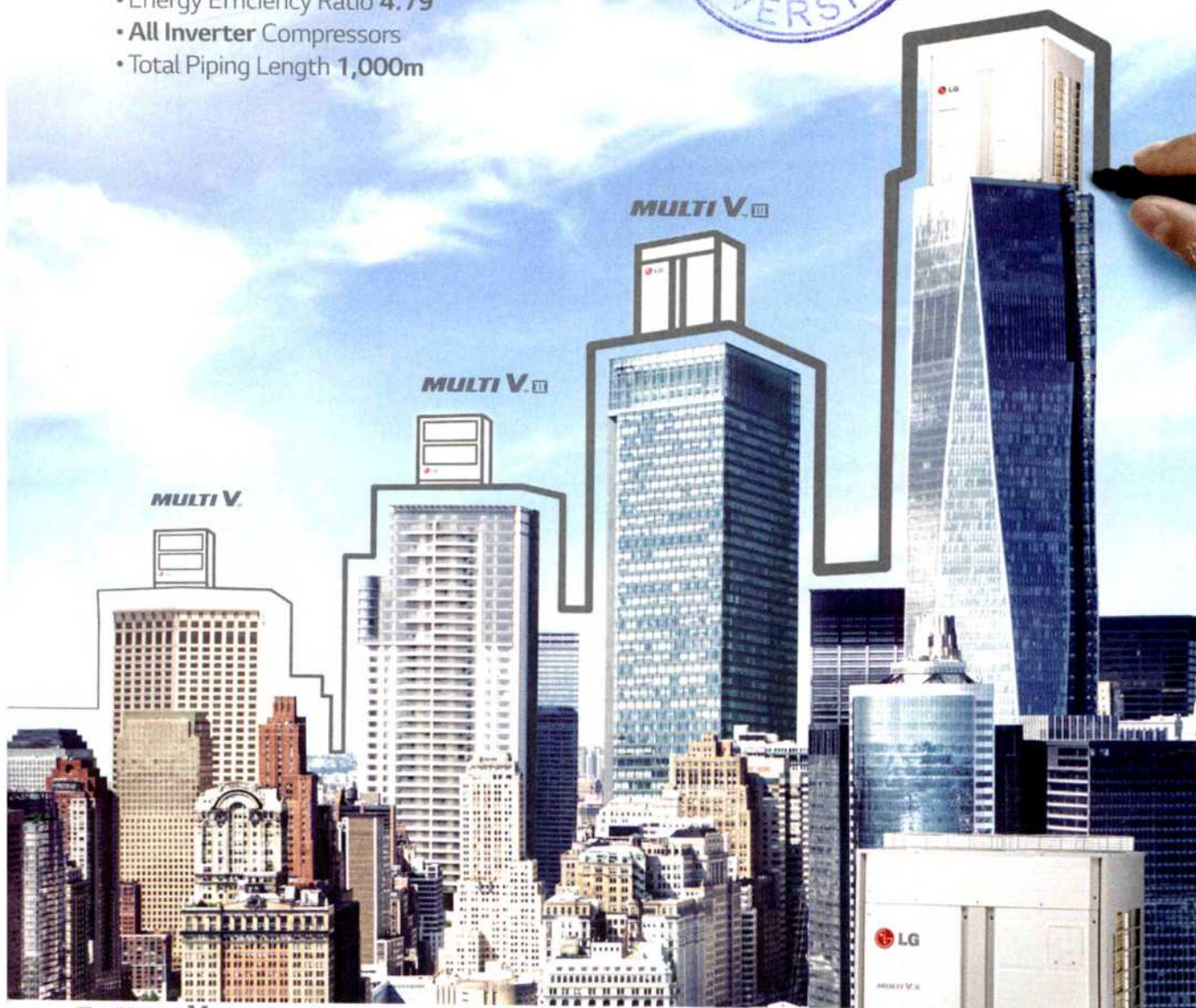
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Crude oil prices, falling for the last eight months, rallied briefly in the fourth week of March after Saudi Arabia bombed neighbouring Yemen, leading to fears of supplies being disrupted. But it was a brief respite. Within days, all gains had been lost and prices were sliding further with the prospect of oil from Iran – sanctions against which are likely to be lifted – creating a bigger glut. On March 31, crude spot prices at the benchmark West Texas Intermediate (WTI) and Brent closed at \$47.72 and \$53.69 per barrel, respectively.

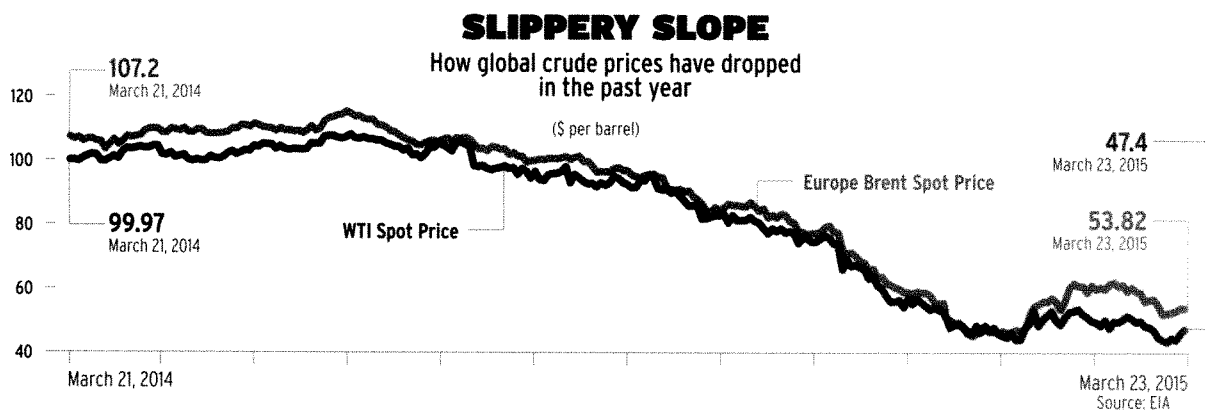
It has been a long way down for crude from an average Brent price of \$108.1 per barrel in the January-March quarter of 2014 to \$53.9 per barrel in the corresponding quarter this year. The WTI averages for the same quarters were \$98.7 a barrel last year, and \$48.5 a barrel this time. The reasons are well known – Saudi Arabia refusing to re-

duce production despite the glut, Russia's refineries increasing exports and high shale oil production in the US, reducing its dependence on imports. The decline has been welcomed by many in India as it is helping to reduce inflation, the fiscal deficit and the import bill. But the oil companies, be they in refining or exploration, or both, are suffering.

Reliance Industries Ltd's (RIL) profit after tax, for instance, dropped 7.7 per cent year-on-year in the third quarter of 2013/14, to ₹5,085 crore, while net sales declined 22.5 per cent in the same period to ₹80,196 crore. Total income fell from ₹1,05,826 crore to ₹82,598 crore. Essar Oil's profit stayed flat at ₹52 crore, but total income decreased 19.24 per cent to ₹20,295 crore. Cairn India's income and profit fell by 25.38 per cent and 62.3 per cent, respectively. Among public sector companies, Oil and Natural Gas Commission (ONGC) suffered the most, with its profit almost halved to ₹3,571.20 crore in the third quarter of 2014/15 from ₹7,125.97 crore in the same quarter a year ago and income down to ₹20,302.02 crore from

₹23,514.57 crore. (See *Taking the Rap*.)

Results in the new financial year are expected to be worse, since the base will be the financials of the first few months of 2014/15, when oil prices were still reasonably high. While refining companies can make some adjustments, purely exploration and production (E&P) ones like Cairn India will be hit hardest. "In the upstream business, the cost of production remains the same," says a Cairn official. "When the price falls, it directly cuts margins and profitability." Cairn India sells its crude at around 10 per cent discount to the Brent price. Around 75 per cent of the production from its largest oilfield in Barmer, Rajasthan, is bought and refined by RIL and Essar. Its public sector counterparts, like ONGC, will be affected less. "The government anyway takes away the surplus value above ONGC's net realisation of around \$45 a barrel to subsidise the fuel," says analyst S.P. Tulsian. "Crude volatility will not make much



difference to ONGC."

To offset losses, Cairn India will pursue a two-pronged approach. "First, we will only undertake projects that are economically viable at current oil prices," says the Cairn official. "Second, we will re-engineer and renegotiate existing contracts." (These are the contracts with suppliers of oilfield services and equipment.) Cairn's recent capital expenditure of over \$4 billion in its Barmer oilfields will stand it in good stead. "The investment has put the company ahead of the cost curve and will allow it to be more selective about projects going forward," the official adds. He also hopes the government will lift the ban on exporting crude. "We can get a better price in some overseas markets, but are forced to sell in India," he says. Cairn produces around 28 per cent of India's oil, around 11 million tonne per annum (MTPA) against ONGC's 26 MTPA.

RIL remains a relatively small player in crude E&P, producing around 0.65 MTPA, but it is a giant in refining, which contributes about 78 per cent of its revenues and 55

TAKING THE RAP

All leading oil companies saw a fall in total income in the third quarter of 2014/15, compared to the corresponding quarter a year ago

COMPANY NAME	Oct-Dec 2014		Oct-Dec 2013	
	TOTAL INCOME	PROFIT AFTER TAX	TOTAL INCOME	PROFIT AFTER TAX
OIL & NATURAL GAS CORPORATION	20,302.02	3,571.20	23,514.57	7,125.97
RELIANCE INDUSTRIES	82,598.00	5,085.00	1,05,826.00	5,511.00
CAIRN INDIA	2,018.81	555.34	2,705.40	1,473.39
INDIAN OIL CORPORATION	1,07,983.75	-2,636.80	1,19,354.01	-961.45
HINDUSTAN PETROLEUM CORPORATION	51,323.58	-325.38	55,651.51	-1,733.91
BHARAT PETROLEUM CORPORATION	58,265.00	551.16	65,018.42	-1,088.94
ESSAR OIL	20,295	52	25,131	52

Standalone figures in ₹ crore; Source: BSE and company data

per cent of its profits. Its gross refining margin (GRM) has already taken a hit, going down to \$7.30 a barrel in the third quarter of 2014/15, against \$8.30 a barrel in the second quarter. Apart from crude procurement efficiency and refinery efficiency, GRM depends mainly on the "crack" – the price difference between the crude bought and the petroleum product. The purchase price is difficult to estimate in a price-fluctuating market.

"Globally, GRM also tends to take a hit when crude prices go down," says Dilip Khanna, Partner, Transaction Advisory Services, Ernst & Young (EY). "But loss on crude inventory is short term." RIL officials, too, maintain they are not overly worried. "Our GRM did fall in the third quarter, but it was still higher than the benchmark Singapore GRM," says an RIL executive. "Revenue may fall due to the crude price decline, but profitability will be less affected."

RIL is also likely to gain from its new petroleum coke gasification plant at the Jamnagar refinery, its new refinery off-gas cracker, the expansion of its polyester/aromatics capacity and its import of cracker feedstock from the US. "RIL is executing four key downstream projects in its core refining and petrochemical business with estimated capex of around \$15.5 billion... We estimate these projects will add around \$3.2 billion in incremental EBITDA in the first full year of operations even in a low \$70 per barrel oil environment," says Morgan Stanley

Research's Asia Insight report. Even if the price falls to \$40 per barrel, the reports estimate an additional EBITDA of \$2.2 billion; if it rises, the added EBITDA could be as high as \$4.9 billion.

The weak oil price, however, will affect RIL's hitherto rising shale oil venture, whose US revenue in 2013/14 was \$893 million, up 45 per cent over the previous year, with EBITDA at \$659 million, up 37 per cent. Exploration activities, too, remain mired in arbitration with the government, while gas production in the Krishna Godavari basin, KG D6 block, down to 11 million standard cubic metre per day.

Essar maintains its refining "crack" stable despite crude price volatility. It is setting up one more hydrogen manufacturing unit and converting vacuum gas oil in its effort to increase GRM by about a dollar a barrel.

What of the future? Many experts expect it to be just as bleak. Economist Frank A. Wolak of Stanford University, for example, claims oil prices could remain low for the next decade or two. Wolak's report cites reasons such as growing shale oil production in North America, the declining role of the once-powerful Organisation of Petroleum Exporting Countries (OPEC), the standardisation of oil well drilling technology and the lower price of natural gas as compared to oil. Indeed, oil inventories in the US are the highest in at least 80 years. ♦

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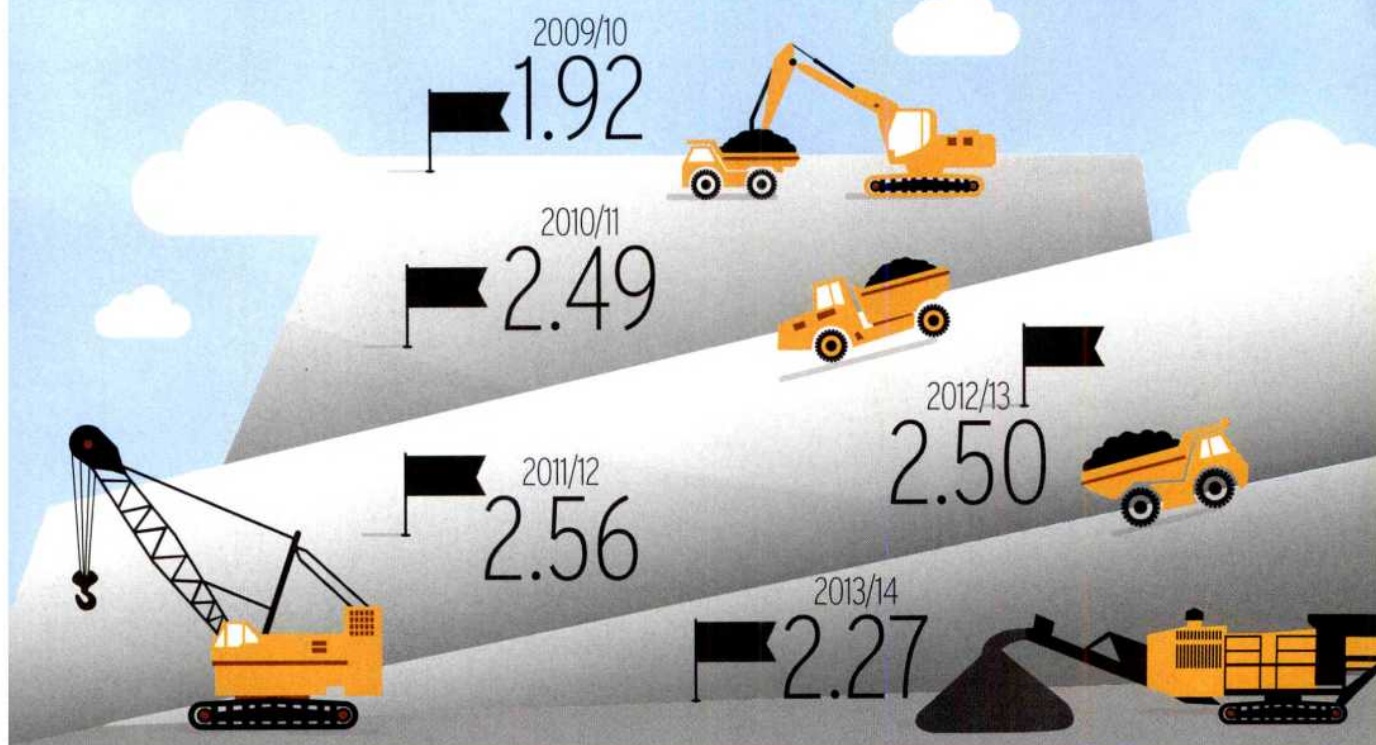
Clearing the Minefield

The government has set the stage for a paradigm shift in the mining sector with the passage of the Mines and Minerals Bill in Parliament. A crucial reform is the adoption of an auction-based regime, injecting much-needed transparency in mine allocations. But there are several hidden cost implications for the beleaguered mining industry.

Illustrations by: **Raj Verma**

Research by: **Niti Kiran**

1) Closure of operating mines, minimal new mine allocations and limited exploration activities have severely hampered India's mineral output. Mineral production actually declined in 2013/14

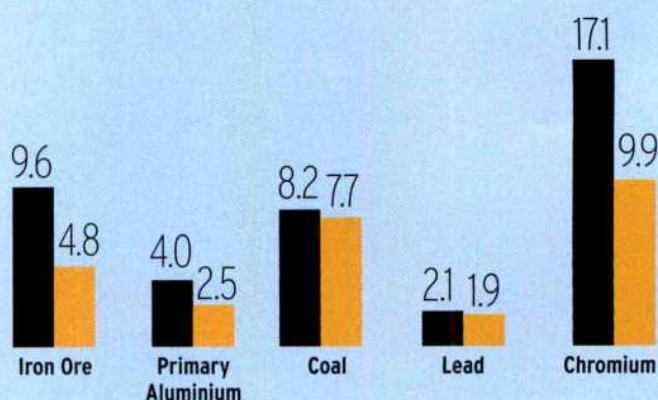


All figures in ₹ lakh crore

2) India's share of global mineral production has declined

across categories recently despite its large natural resource base - a consequence of a complex regulatory framework

■ 2009 ■ 2013



Figures in per cent; Source: British Geological Survey

3) Inadequate investment in exploration has been the key challenge for the mining industry in India

ABSOLUTE INVESTMENT IN EXPLORATION#		REAL GROWTH OF CAPEX IN THE MINING SECTOR*
21,758	Chile	29
1,395	China	28
5,580	Australia	23
1,215	Brazil	22
5,310	Canada	8
400	India	7
2,111	US	5

₹ per square km; *CAGR (2001-2008) in per cent
Source: Strategy Paper for the Ministry of Mines, 2011



CONCLUSION: Likely structural implications for the industry

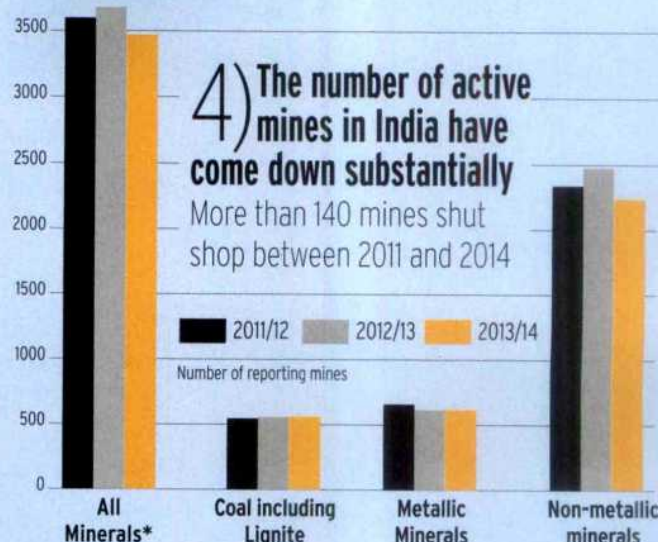
TATA STEEL: It could benefit from clarity on regulations with the extension of mining rights at captive mines. However, raw material prices will increase if it also procures iron ore via auction for expansion

Source: Barclays Research

JSPL: Its steel operations could benefit from the extension of mining rights from operational iron ore mines

SAIL: A hike in royalty-linked payment would impact margins

SESA STERLITE : It could benefit from the extension of mining rights at existing mines



*Excluding atomic minerals, petroleum (crude), natural gas (utilised) and minor minerals
Source: Ministry of Mines

5) For the industry, extended mining lease tenures and greater transparency in mine allocations are the obvious benefits from the new law. But the hike in royalty-linked payments is likely to impact profitability. Also, cost pressures because of auctions could further impact operating margins

THE SALIENT PROVISIONS OF THE ACT:



All mineral concessions will be granted only through auction

Uniform lease period of 50 years with no renewals; auction at the end of lease period



Central government to frame separate rules for atomic minerals

Prior approval of the central government not required for grant of mineral concessions (except atomic minerals)



National Mineral Exploration Trust to be set up for impetus to exploration

Source: Ministry of Mines, Barclays Research

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2.0L TDI Engine | 320 Nm Torque | 140 PS (103 kW) Power | 19.33 kmpl[#]

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WHAT'S TRENDING

The Social Commuter

The best way of getting from point A to point B in the city could soon be through a social app. By **CHITRA NARAYANAN**

Can Facebook or Twitter help you reach your office quicker? Well, only marginally, perhaps, if you follow the tweets of Traffline Delhi, Bengaluru or Mumbai that alert you in real-time to road blocks. But a new generation of social apps are being tested by city administrations as well as private players to make commuting a faster and happier experience.

Take SUPERHUB, a European co-funded project which collects urban movement data in real time and

then does some smart matchmaking between transport providers and consumers so that the best possible routing decisions can be taken in a city. It's piloting this project in three test sites – Barcelona (Spain), Milan (Italy) and Helsinki (Finland).

This is how it works. At the back end, data will pour in from cab aggregators, bus networks, and all other transport providers, and fed into an app. At the front end, in a couple of clicks, customers can take real-time decisions on how to

AIJAY THAKURI



SOCIAL TOON

My boss wants to know how many Twitter followers I have, how many likes my FB posts get



He wants me to start tweeting and posting about all our initiatives, campaigns

plan their route.

Companies like Xerox are involved in researching and developing such apps. Says Manish Gupta, Director, Xerox Research Centre India, and Vice President, Xerox Corporation: "What we are working on is an overall urban mobility solution, where, as a citizen, when you want to go from point A to point B, it will give you the best possible option in terms of cost, speed and environment friendliness." The cheapest option suggested could even be multi-modal – a taxi half way, a bus part of the way and so on. "Over a period of time, the app will learn about your preference, and as it discovers that you invariably choose the environment-friendly option, it will show you more of that option rather than the cheap or fast routes."

Gupta says Xerox is also researching concepts of ride sharing using social media. "Once you have declared you are open to sharing a ride with your friend and you make your social network available, the underlying software can figure out who else in your network is taking a ride in the same direction and hook you up."

For cities that open up their public transport data to app developers, the cost savings promise to

be enormous. McKinsey has even put a figure to it, estimating that the total economic value of open data in transport could be between \$720 billion and \$920 billion globally.

Helsinki is, in fact, getting so ambitious with the urban mobility on demand solution it is developing, knitting up taxi services, buses, cycles on hires and ferries, that it feels there will come a time when citizens will not need to own a private car at all. There are apps being developed where commuters can not only plan their journeys but also pay for it through a universal payment gateway.

If that sounds too good to be true, then check out this crowdsourcing Street Bump project flagged off by the Mayor's office in Boston to improve the city roads. Volunteers have to download the Street Bump mobile app – when they drive around the city their mobile phone sensors register bumps felt on roads and transmit the information to the Mayor's office. If three or more bumps are reported from a location, the city will send a team to look at it and fix any potholes! Easy commutes and smooth rides could one day be an urban utopia powered by social apps! ♦

@ndcnn

LISTENING POST

Periscope Surfaces



TV networks, better watch out! Twitter's just-launched video streaming app Periscope has put the power of broadcasting into the hands

of people. Anybody with an iPhone or an iPad (eventually it will be on Android, too) can now shoot videos and livestream from any place and any situation. There have been other livestreaming apps before, but Meerkat (launched just before Twitter's app) and Periscope are a league ahead in ease of use. The democratisation of technology could disrupt the media industry as the first set of users showed, taking us travelling down a road in Australia, and more shockingly live reporting a homicide scene.

Messenger Opens Up



Facebook has opened up its Messenger platform to app developers. The social network with three chat apps in its portfolio – WhatsApp, Instagram and Messenger – has been well behind WeChat and Line in getting brands on to the platform. But at its recent F8 developer meet, FB announced that Messenger will be its key mobile platform for content, commerce and communication. Analysts have been writing how despite 600 million users, Messenger has fallen behind in user engagement. This move could increase engagement.

Wiring up the World

At the F8 do, Facebook founder Mark Zuckerberg also revealed that progress has been made on attempts to provide Internet access globally through the *Internet.org* project. If Google's approach was to use balloons via Project Loon, then Facebook plans to use solar-powered unmanned aircraft. "It's a big plane, it's a big project and it's never been done before," said Zuckerberg.

AJAY THAKURI

That's great!
But do you remember that our work contract says: 'No Facebooking or tweeting or use of social media during work'



Ebbing Confidence

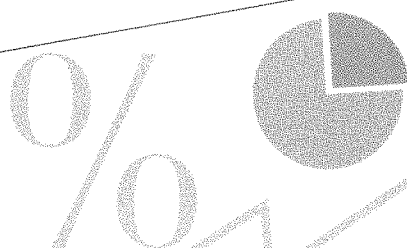
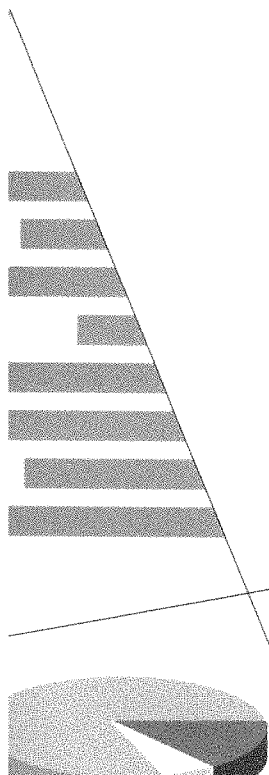
Business sentiment is taking a hit as corporate India waits for the government to ring in key reforms to kickstart growth, finds out the latest *Business Today*-C fore Business Confidence Survey. By MANU KAUSHIK and SHWETA PUNJ

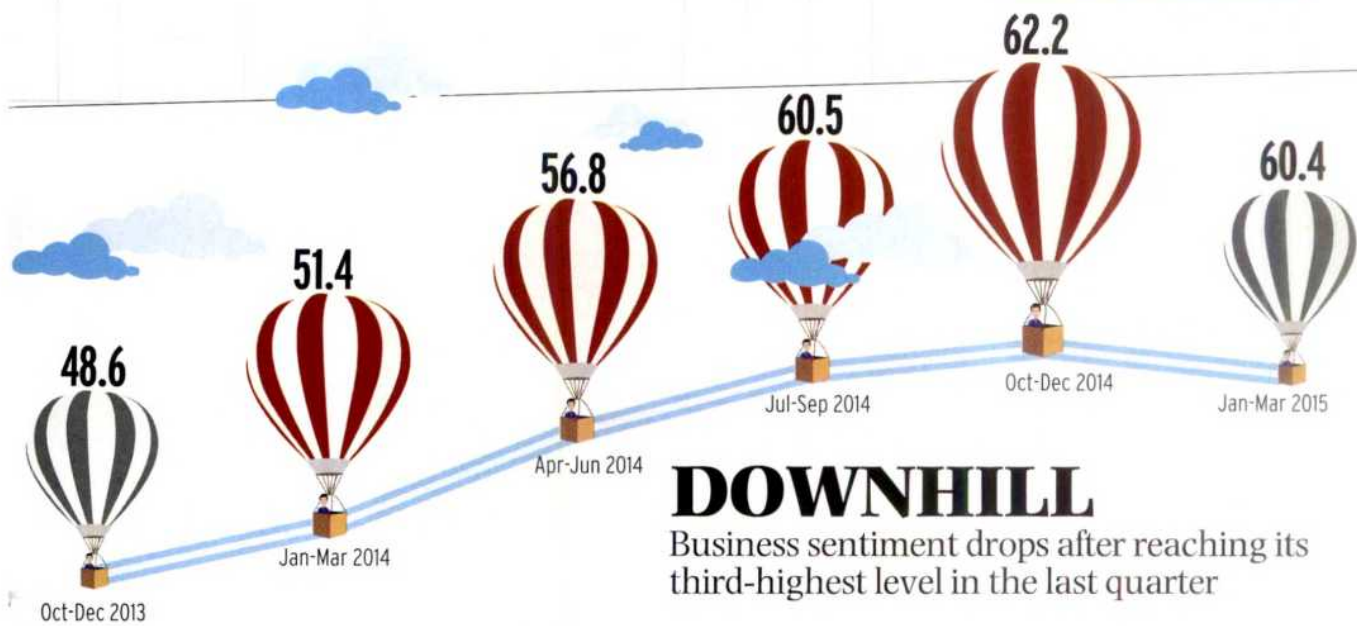
The National Democratic Alliance (NDA) government has often been dubbed by the opposition as 'pro-industry', a tag it has tried hard to shake off. But now Narendra Modi and his team are increasingly feeling the heat from businesses for not doing enough to mend the economy.

A strong NDA government, with a clear majority in the lower house of Parliament, had promised to shake off policy paralysis and ring in far-reaching reforms. Less than a year into its term, the honeymoon period seems to be getting over. Indian businesses are still grappling with a bunch of problems, including weak rural demand, high borrowing costs and uncertainty around the crucial land acquisition bill. True, Modi has taken some steps to show that he means business. The coal and spectrum auctions, the Jan

Dhan Yojana, hike in insurance and defence FDI limits, *et al.* But more was expected from the government. This is reflected in the latest *Business Today*-C fore Business Confidence Survey. Indeed, confidence levels, on a scale of 100, have slipped to 60.4 in the January to March period, down from 62.2 in the previous October to December quarter.

This marks the reversal of the trend observed over the last few quarters. Business sentiments had begun to improve from October 2013 and had picked up pace after the NDA formed a stable government in May 2014. In fact, confidence levels rose for five consecutive quarters before a correction in the latest survey. Market research agency C fore quizzed 500 CEOs and chief financial officers across 12 cities for the study.





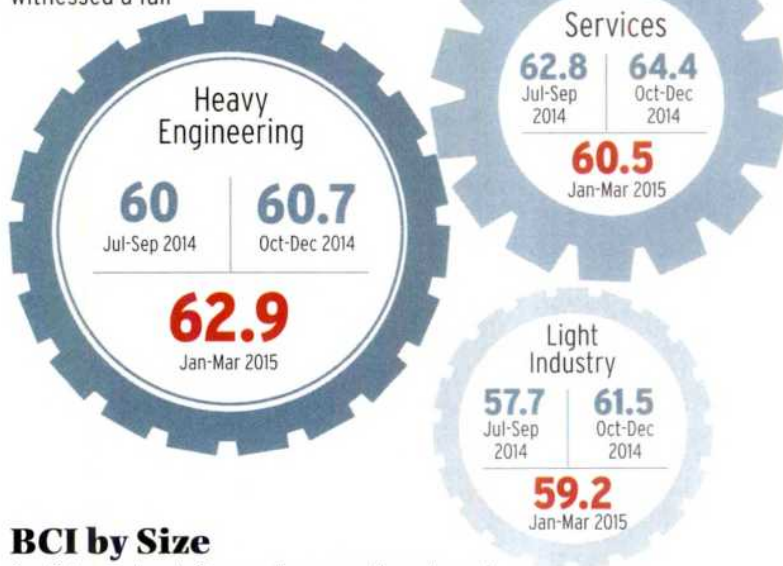
Most indicators have recorded a sequential fall in the March quarter. Worse, the outlook for the June quarter too appears gloomy. Take overall economic situation, for instance. In the latest survey, 41 per cent of the respondents believed that the macro-economic conditions will become worse in the April to June period. In the last two surveys, the comparative figures were 22 and 11 per cent.

Several other crucial parameters have also registered a drop in confidence levels. These include production levels, cost of raw material, utilisation of production capacity, sales pickup, exports and hiring pickup. Forty per cent of the respondents expect production levels to fall in the June quarter –only 15 per cent expected a drop in the March quarter in the previous survey.

Samiran Chakraborty, Head of Macro Research (South Asia) at Standard Chartered Bank, says that he is not surprised at the change in perceptions. "For several quarters, the sentiments were high. At some point, these sentiments were expected to correct since macro numbers have not improved substantially and the demand side of the economy is still

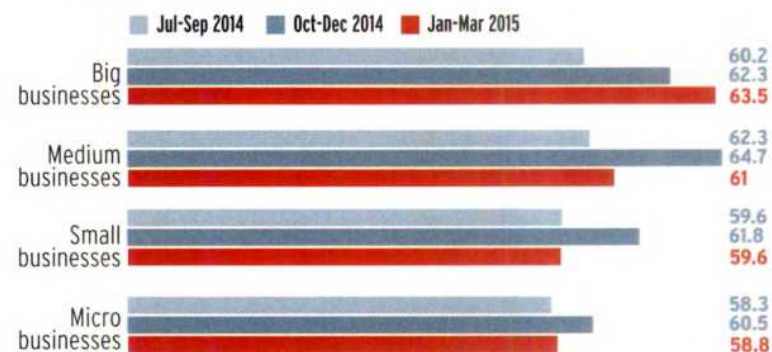
BCI by Sector

Services and light industry sectors witnessed a fall



BCI by Size

Confidence levels for medium, small-scale and micro businesses dipped



Business Confidence Index on a scale of 100

Big businesses: Turnover > ₹500 crore

Small businesses: Turnover ₹5-100 crore

Medium businesses: Turnover ₹100-500 crore

Micro businesses: Turnover < ₹5 crore



"I know there is a lot of work going on... a lot of focus on ease of doing business"

KIRAN MAZUMDAR-SHAW
Chairperson & MD, Biocon

struggling," he says.

In the survey, 46 per cent respondents expect exports to fall in the June quarter. The comparative figure was 28 per cent in the last survey. India's merchandise exports in February dropped for the third consecutive month to \$21.55 billion, down 15 per cent from \$25.35 billion in the year ago period, according to the Ministry of Commerce and Industry. Clearly, sluggish global demand, with the European economy yet to stage a recovery, has taken its toll.

It'll take another three to four quarters for the business environment to improve significantly, according to Ajay Shriram, Chairman and Senior Managing Director, DCM Shriram, a diversified group with interests in chemicals to textiles. "Investments have not picked up adequately but companies have started looking at expansion and growth. Ease of doing business is still a concern and rural markets are going through a low phase."

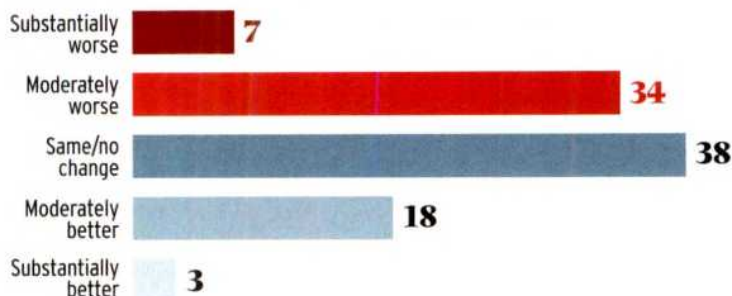
Chris White, President and Group Chief Executive Officer at RJ Corp, says that the entrenched bureaucracy has failed to deliver adequate results though the government has shown intent. The company operates the largest bottling plant in India and its interests spans health care, hospitality, retail and educa-

REVERSE GEAR

Business environment deteriorated on key parameters in the January-March quarter

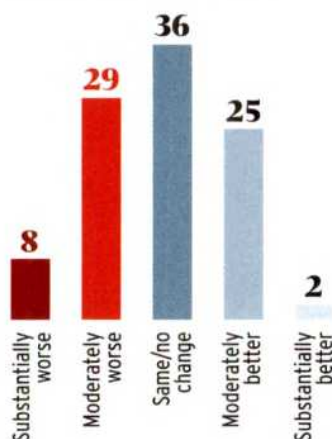
Overall Economic Conditions

Two-fifths felt that conditions had worsened



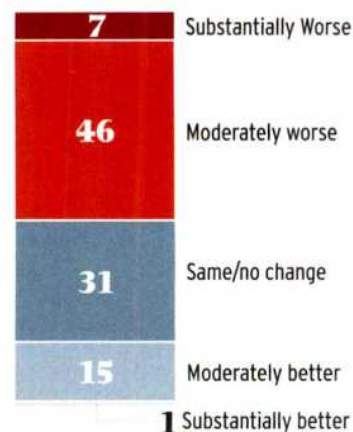
Availability of Finance

More than a third felt that the situation had deteriorated



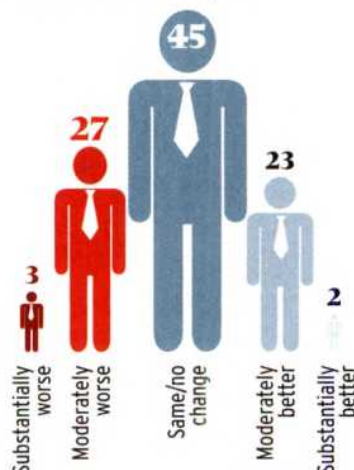
Demand Conditions

More than half said that demand had fallen



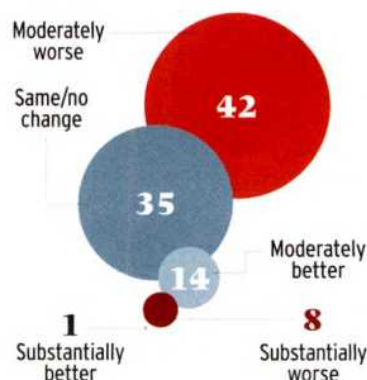
Hiring Conditions

Most saw no change



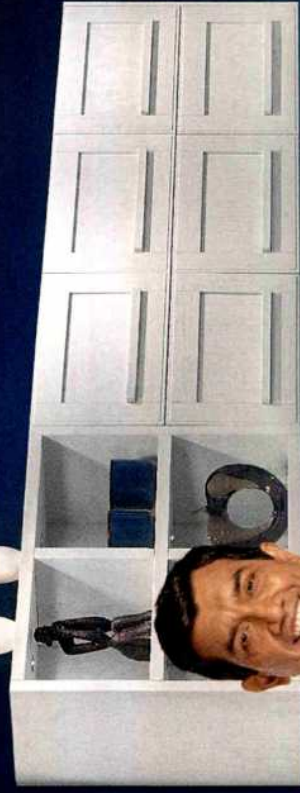
Profit Margins

Half felt that margins had shrunk



Figures indicate percentage of respondents

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"It's not that the government is not doing anything. It will take time for things to change materially"

HARSH PATI SINGHANIA
Vice Chairman & MD,
JK Paper

tion. "I think realistically they have done well. They are trying to tackle land acquisition and implement GST (goods and service tax). They need more dialogue between the industry and the government."

The survey highlights that just 35 per cent respondents are willing to make fresh investments in 2015/16. It is a sharp drop from the last survey when 67 per cent respondents expected fresh investments to start pouring in this year. Domestic investments are not picking up because of lower capacity utilisation in manufacturing, high debt burden of corporate India and significant amount of non-performing assets in the banking system. A majority of the respondents – 61 per cent – are hopeful that inflation will remain under control, increasing chances of more interest rate cuts in future. D.K. Joshi, Chief Economist at CRISIL, says that the government's target of a CPI (consumer price index) at six per cent in January 2016 looks achievable. "There are two factors which will keep the inflation under control. These are low crude oil prices and weak rural spending. Monsoon will be the biggest thing to watch out for now," he says.

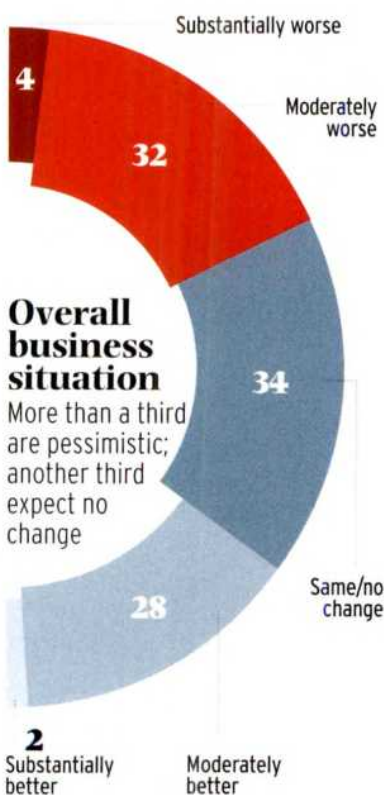
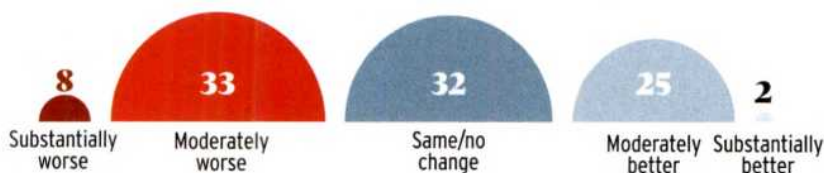
The RBI has reduced repo rate by 50 basis points (bps) in two tranches

BLEAK OUTLOOK

Companies see few reasons to cheer in the April-June quarter

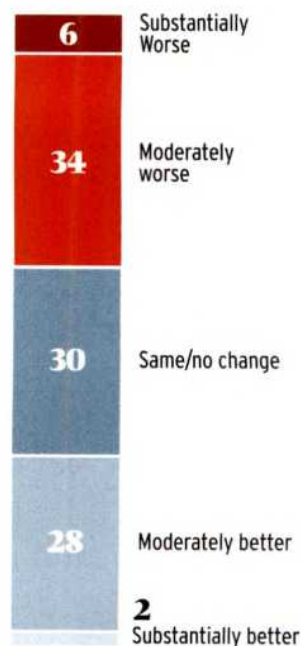
Overall Economic Situation

Only about a quarter expect the outlook to improve



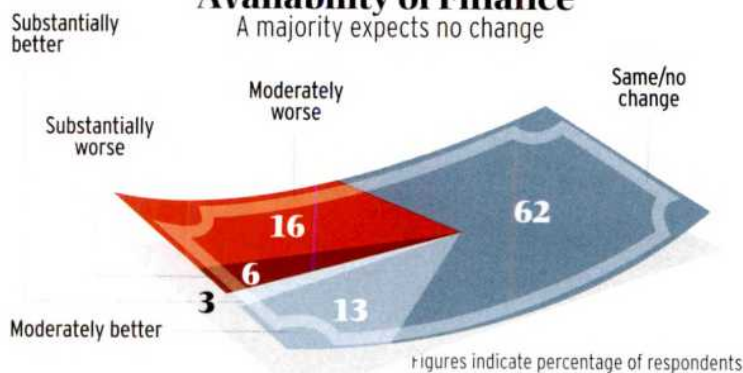
Production level

Two-fifths feel output will drop



Availability of Finance

A majority expects no change



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"Investments have not picked up adequately but companies have started to look at growth"

AJAY SHRIRAM
Chairman & Senior MD,
DCM Shriram

since January. Banks have however not passed on these rate cuts to consumers and the industry. It is expected that banks will now be forced to cut lending rates in first quarter of 2015/16. Standard Chartered Bank's CPI target for 2015/16 is 5.4 per cent and it assumes that if inflation remains at that level, RBI will have scope to reduce key rates by 25 to 50 bps in the current financial year.

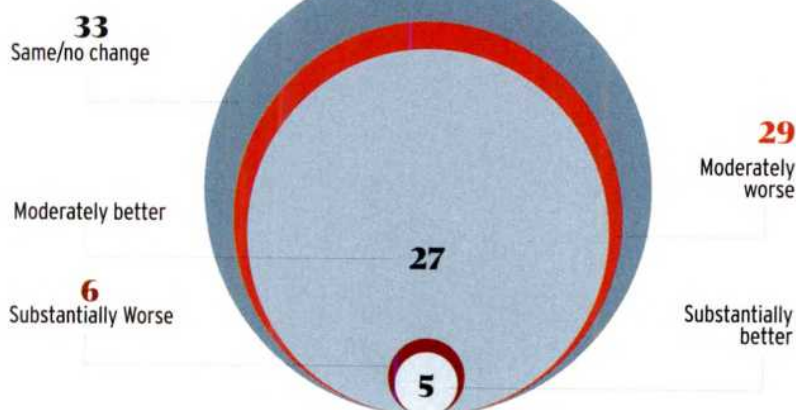
Some believe that expecting quick results from the government is unrealistic. "It's not that the government is not doing anything, it will take time for things to change materially – infrastructure, labour will take time to fix," says Harsh Pati Singhania of JK Paper. Agrees Kiran Mazumdar-Shaw, Chairperson and MD of Biocon. "A few months ago there was quite a gap between the ground reality and positive rhetoric but now I know there is a lot of work going on at the back on self-attestation, a lot of focus on ease of doing business."

But, all said and done, corporate India expects Modi to deliver soon. Sentiment may nosedive in the next few quarters unless there is a material difference to the situation on the ground. ♦

@manukaushik; @shwetapunj

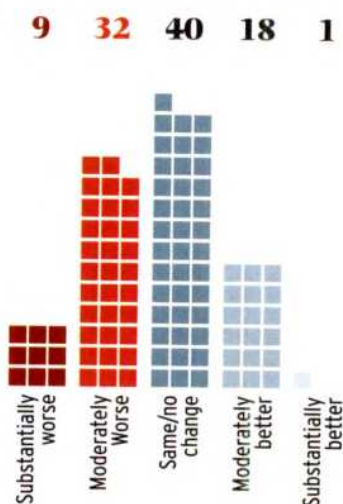
Order book

Only a third expect order books to expand



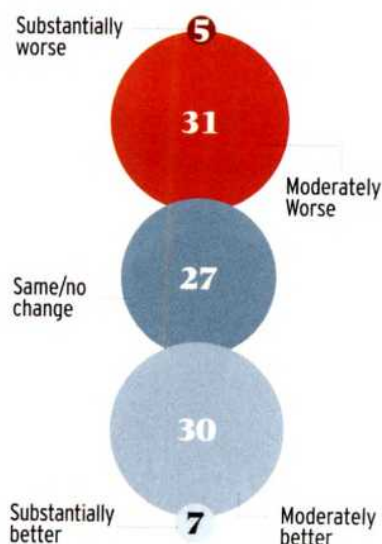
Cost of Raw Material

Over two-fifths feel that the situation will deteriorate



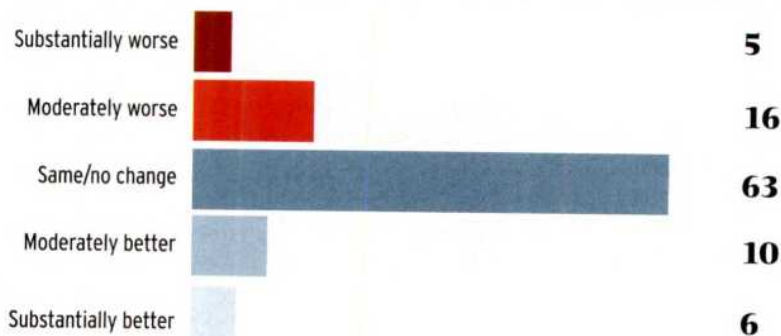
Utilisation of Production Capacity

More than a third foresee an improvemer



Investment in Business

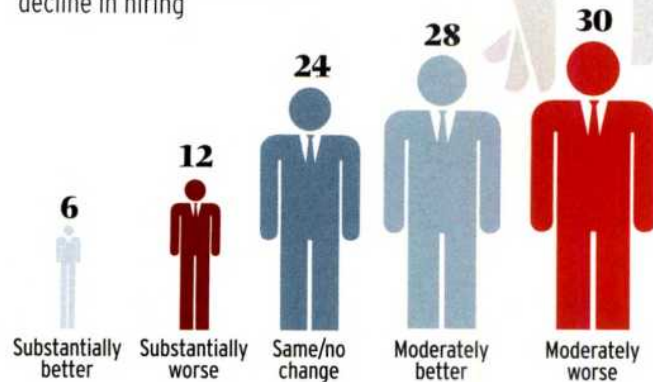
A majority don't see any change



Figures indicate percentage of respondents

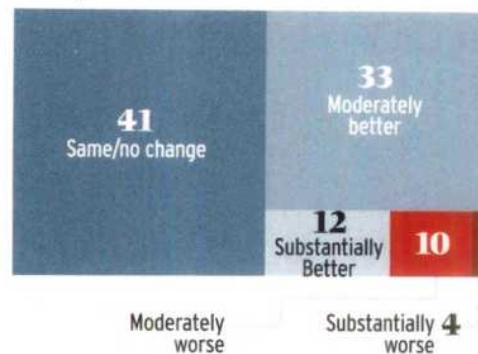
Hiring Pickup

More than two-fifths expect a decline in hiring



Stock Prices Pickup

A small minority expects a drop in share prices



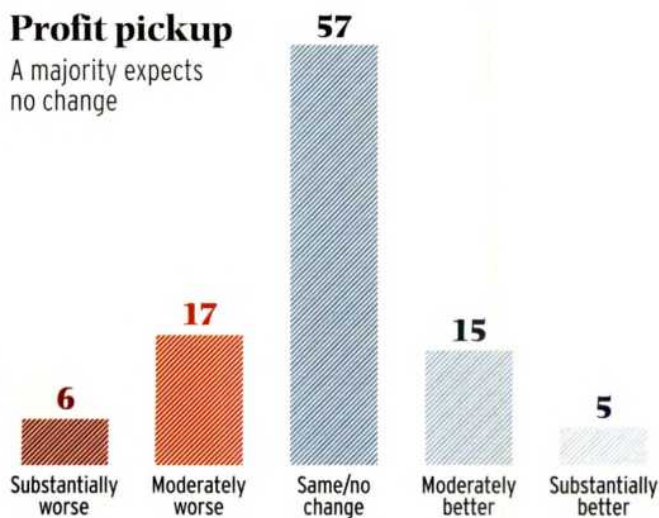
Export Pickup

Only one in five feel that exports will increase



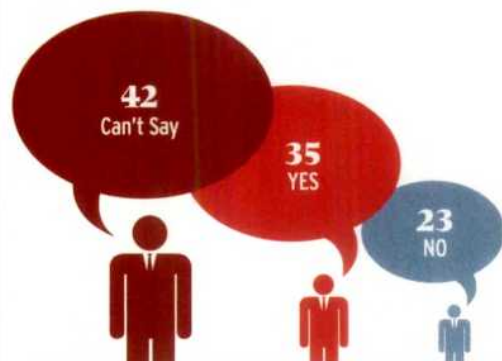
Profit pickup

A majority expects no change



Investment

A third will make fresh investments in 2015/16



Figures indicate percentage of respondents

METHODOLOGY

Market research agency C fore designed and conducted the survey, which was conducted between March 19 and 25, 2015. A structured questionnaire was administered to CEOs or CFOs of companies. In all 500 CEOs or CFOs representing various industries in terms of sector and size were interviewed. The survey was conducted in 12 cities – namely Delhi, Mumbai, Chennai, Hyderabad, Bangalore, Kolkata, Chandigarh, Lucknow, Nagpur, Kochi, Vizag and Bhubaneswar. The companies were segmented based on their turnover and also the products offered by them. Those with turnover of over ₹500 crore have been termed as big, those between ₹100 crore and ₹500 crore as medium, those with a turnover of less than ₹100 crore as small and those less than ₹5 crore as micro businesses.

How Green Is Chouhan's Valley?

Farm growth has fired Madhya Pradesh's GDP. Has that come at a price? **By SHWETA PUNJ**

PHOTOGRAPHS BY PANKAJ TIWARI



S

onu Devi of Sevania village, in Madhya Pradesh's Sehore district, is a stout woman of 31. She begins her day at five in the morning. After sending her two children to school, she prepares lunch for the family and joins her husband on their two-hectare farm. In the evenings, though,

Sonu Devi is transformed, as she educates other women of the village on new methods of farming. She was the first to adopt farm mechanisation in her village.

Dressed in a light-green sari, the parting of her oiled and plaited hair lined with vermillion, Sonu Devi speaks softly and laughs easily as she is asked who takes the big decisions,



MP vs INDIA

24.99%

Agriculture growth rate in 2013/14

4.9%

Projected farm growth rate

Farming success: The lush Krishi Vigyan Kendra guava farm in Sevania village



“Agriculture needs to be profit-driven”

INTERVIEW/ Shivraj Singh Chouhan/ CM, Madhya Pradesh

Ever since **SHIVRAJ SINGH CHOUHAN** became the Chief Minister of Madhya Pradesh, he has made a concerted effort to boost the agriculture sector in the state. An agriculturalist himself, he spoke with **SHWETA PUNJ** on improving farm growth and a number of other issues. Excerpts:

Why did you decide to make agriculture the main driver of growth in your state?

When I came to power, Madhya Pradesh had no infrastructure. So, my first priority was road, electricity and water. These are very important for any development.

she or her husband. “*Hum dono* (both of us).”

A class XIth pass, she is eager to learn more and picks up the details quickly, says J.K. Kanojia, the manager of a Krishi Vikas Kendra (KVC) in Sevania. Kanojia shows off the lush KVC farm proudly. It was barren just 10 years ago.

Inevitably, signs of prosperity have come to Sevania. Most homes have electricity and television sets. In Seoni district, for instance, monthly per capita spend has grown by 20 per cent and television penetration has risen from 26 per cent to 41 per cent in the last seven years.

That is reflective of the change in all of Madhya Pradesh. The state’s gross domestic product (GDP) has

grown at more than nine per cent consistently since 2009/10, most of it on account of agriculture, which has averaged about 20 per cent growth in these years. As the size of the GDP has grown, agriculture’s contribution to it has also grown to 27.5 per cent in 2013/14, up five percentage points in two years. Land under cultivation rose 21 per cent in the 10 years to 2012/13.

This has been possible because of a concerted programme driven by Chief Minister Shivraj Singh Chouhan, himself an agriculturalist, who took charge in 2005. “I thought until agriculture became profitable, the lives of the people would not improve. I have always said agriculture should be about profit – it should be a

business,” says the understated Chouhan, dressed in his characteristic kurta pyjama.

Chouhan saw to it that the interest rate on crop loans was reduced from five per cent in 2009/10 to zero in 2012/13. As a result, these loans jumped 213 per cent in the three years to 2013/14. Power supply to agriculture went up 87 per cent in the five years to 2014/15.

The state has encouraged farmers to grow different crops. There is state scheme that runs a ₹14.5 crore fund for paddy, ₹53.5 crore for wheat, and ₹122.15 crore for pulses.

“We didn’t have fertile soil or water for irrigation. Our goal is to make such scarce resources productive,” says Kanojia of Sevania’s KVC,

There can be no agriculture or industry without them. We [can now] say with pride that our villages get 24/7 power – 14,000 MW of power is available now, earlier it was 2,900 MW. We have built one lakh kilometre of roads. I realised that agriculture needs to be profit-driven. Till agriculture becomes profitable, the lives of people will not improve.

How did you do it, considering agriculture growth is declining nationally?

We decided to increase irrigated land – from 7.5 lakh hectares to 27.5 lakh hectares. Seed replacement has gone up by 30 per cent. We decided to give zero per cent interest loans to farmers. They were also given bonuses. We dug up three lakh wells and decided to change the crop pattern – to flowers and commercial farming. We have ensured regular power supply to our farmers. In 2013/14, agriculture grew by about 20 per cent, this year (2014/2015) it is about 24.5 per cent. Now, we are moving towards food processing. Our priority is to get investments.

There is a sense of competition among states. What is MP promising as an investment destination?

We have organised a global investor summit and have made investor-friendly policies. We have land, skilled manpower, 24/7 power, single-window clearance. We are encouraging the youth to be job creators and not jobseekers. We are giving a loan of up to ₹10 lakh and the state is the guarantor. We are also giving technology and marketing support. Our dream is that every district should have 15 to 20 such youngsters who have set up their own industry.

What about the skilling challenge?

To get industry, I have to create skilled manpower. I am running ITIs (Industrial Training Institutes) on PPP (public-private partnership) mode. We have [also] opened skill development centres.

Why is your state opposing Goods and Services Tax (GST)?

We don't have any problem with GST. We wanted clarity on the revenue loss and how will the state be compensated for it. We need a tax-sharing mechanism. Arun ji [Finance Minister Arun Jaitley] has assured us that our issues will be addressed.

as he shows flowering fields with newer varieties of seeds, composting for organic farming, and cross-farming, among other new techniques that the state wants its farmers to adopt. "Learning is by doing and believing is by seeing. Until you show the farmer, he will not believe."

She does, led by Sonu Devi and her ilk, who have seen much more than just new farming techniques.

Not too long ago, they waited for days, even weeks, to sell their grain. Heaps of wheat and other grain would be found piled up outside state procurement centres. Many a time a frustrated farmer would sell his produce to a trader for a song.

Until three years ago, the state had nine million tonnes of storage

capacity; today it has 15 million tonnes. Madhya Pradesh's losses due to inadequate storage are less than one per cent of Food Corporation of India's.

At e-procurement centres a farmer is required to register with crop details including expected output and harvest time. This helps the

state plan for storage. Though the government has its godowns, it also rents some, and has modern steel silos.

In less than a decade, there has been a sea-change. Gone are the days you saw the stereotypical image of an impoverished farmer looking up at the sky for rain, or haplessly around at flood waters. The farmer today speaks of e-procurement centres and shows tutorials of new farming techniques on his smartphone.

The new stereotype is a farmer talking about organic farming, sending his children to colleges, starting allied businesses, adopting technology, and travelling abroad to learn more about farm mechanisation.

Travelling abroad? Yes, Pehrat

27.5%
Agriculture's contribution to MP's GDP in 2013/14, up five percentage points in two years

Tyag Ji, Sarpanch of Lasudia Parihar, a village 30 km outside the state capital Bhopal, talks about seeing magic. In Singapore. The visit was partially sponsored by the state. Showing pictures on his phone of a tomato farm there, Tyag Ji recalls his meeting with the man who tilled that farm. "He sold tomatoes worth ₹70 lakh from a one-acre farm in nine months. I couldn't believe it."

Now, Tyag Ji grows 60 to 70 quintals of paddy in his 1.5-acre farm by drawing water from Balram Talab, one of eight ponds built in the village with the help of ₹80,000 for each from the state government.

Others in Lasudia Parihar speak about the favourable impact of dug wells on productivity, as also on diversification – paddy is being grown for the first time in this village which has primarily been a wheat area.

Wednesdays are particularly important in Lasudia Parihar. That's when the villagers gather at 12 noon at the e-learning centre to chat with a scientist through a video link. They talk about new technologies and techniques, innovations, seeds, crop diseases, use of fertiliser, etc.

Rajuketwas, 33, is a regular at these sessions. He says they helped increase the productivity of his 1.5-acre farm five to six times. "Even selling the produce is much easier now."

Rajuketwas has sprinklers to irrigate his field, which were set up with money from the state. He talks about his 14-year-old daughter, who goes to a government school and wants to become a doctor, and 10-year-old son, who goes to a private school. "I want to give them the best of everything."

Chief Minister Chouhan's model is based on empowering the farmers to make the right choices for themselves with emphasis on enhancing capabilities and facilitation, rather than doles or subsidies. In power, for instance, farmers get uninterrupted and good quality of power for a certain number of hours – schedules are

STATUS CHECK Improvements in key indicators that benefited the farm sector

2.7
MILLION HECTARES
Land under irrigation in MP,
up from 700,000 hectares
seven years ago

15
MILLION TONNES
MP's storage capacity,
up from nine million tonnes
three years ago

14,000
MW
The state's power generation
capacity, up from 4,000 MW
in 2000

213%
Increase in crop loans in the
three years to 2013/14



made and kept.

"A farmer requires power for eight hours, not 24. During peak hours we don't give power to agriculture at all," says Anthony Desa, the state's Chief Secretary.

When Chhattisgarh was hived off in 2000, Madhya Pradesh was left with only 4,000 megawatt of installed capacity. Today there is

14,000 MW. Irrigation is a similar story. Seven years ago 700,000 hectares were under irrigation, today there are 2.7 million.

For starters, the government took on all unfinished irrigation projects. Nearly three-fourths of resources were directed towards completing them.

"Everyone likes to lay a foundation stone, this (completing the projects) needed a real political will," says Desa. The administration laid emphasis on dug wells for irrigation, as opposed to tube wells to prevent the water table from depleting further. A well cannot be dug anywhere, but tube well can be installed almost anywhere. A tube well is also cheaper, but can cater to only a small area. A dug well or a pond can irrigate a larger area. A dug well can also store rain water. The state encourages use of dug wells since water has been a problem in the state.

According to an impact assessment study conducted by the Indian Institute of Management, Indore and CIPET Bhopal, areas under the state's Micro Irrigation Scheme showed a 30 per cent higher yield for potato, onion, garlic, and banana, and 20 per cent for other crops. Users used nearly 50 per cent less water.

Madhya Pradesh spent over ₹46,000 crore in subsidies in 2013/14. It spends about ₹15,000 crore on agriculture subsidies, which includes any assistance it gets from the central government. Chief Minister Chouhan still found a way to make farming a for-profit venture.

"We decided to increase irrigated land, give zero-interest loans, dug 300,000 wells, changed the crop pattern, and increased farming of flowers and other commercial crops. Now we are moving towards food processing," he says.

Satish Kumar Dhoot, 55, used state assistance to set up a farm mechanisation rental centre. Dressed in a Van Heusen shirt, Dhoot shows off his eight machines with much pride. He invested ₹10 lakh in the

ICICI Securities Ltd.

project, the government another ₹10 lakh. The centre made a profit of ₹2.5 lakh in the first five months.

"The challenges associated with farming are driving farmers away," says Dhoot. He rents out cultivators for ₹600 an hour, and often works on a two to three week credit cycle. He has two sons. The older one works for a multinational corporation in Indore and the younger helps out at the farm. "I want to bring in new machines and use the best quality of seeds. Our farm's productivity has increased 30 to 40 per cent in the last five years," says, Kapil. Dhoot's younger son, as he shows a paddy plantation tutorial on his smartphone.

As many as 286 custom hiring centres have been established in the state and another 450 are in the pipeline. About 200 villages have been developed as fully mechanised. They are called Yantradoot Gram. A state Organic Production Marketing Council has been established. An organic farming programme is being implemented in 32 blocks of 16 districts.

There are scientists-turned-entrepreneurs who are building technologies which can enhance farm productivity. Thirty-two-year-old Neelesh Patel has worked on a bio resonance technology for seven years. The technology promises to increase the oxygen content in the water thereby enhancing the fertility of the soil. Patel's company, Liquid Energy, is running a test at a state-run farm in Phanda village, about 15 km from Bhopal.

This farm also showcases organic farming and has a biogas plant for generating power. "We don't want to go the Punjab and Haryana way. We want to reduce the use of fertilisers," says Mohan Lal, Director, Farmer Welfare and Agriculture



"Everyone likes to lay a foundation stone, this (completing irrigation projects) needed a real political will"

ANTHONY DESA, Chief Secretary, Madhya Pradesh

Development, Madhya Pradesh.

He already has a huge head-start. The average use of fertiliser in Madhya Pradesh is just 850 gm per hectare. That is a small fraction of the national average of 150 kg. Punjab and Haryana, the opposite of a role model for Madhya Pradesh, average 250 kg per hectare.

As many as 20 of the 50 districts in Madhya Pradesh are dominated by their tribal population. They don't use any fertiliser. The state is educating its farmers on the merits of using less fertiliser and making their own manure.

Naturally, Madhya Pradesh is the largest producer of organic produce in the country, accounting for

40 per cent of the total. There is a long way to go, though -- only 1 per cent of agriculture in the state is organic.

However, this story, like all stories, has a flipside. Among all states, Madhya Pradesh has the lowest average rural wages for both men and women, even lower than Bihar. And, despite the likes of Sonu Devi, farm mechanisation in the state remains low. That can be mainly because of farm power still being low despite having gone up from 0.84 kw per hectare to 1.54 kw. Farm power in Punjab, Haryana and Gujarat is more than 3 kw per hectare.

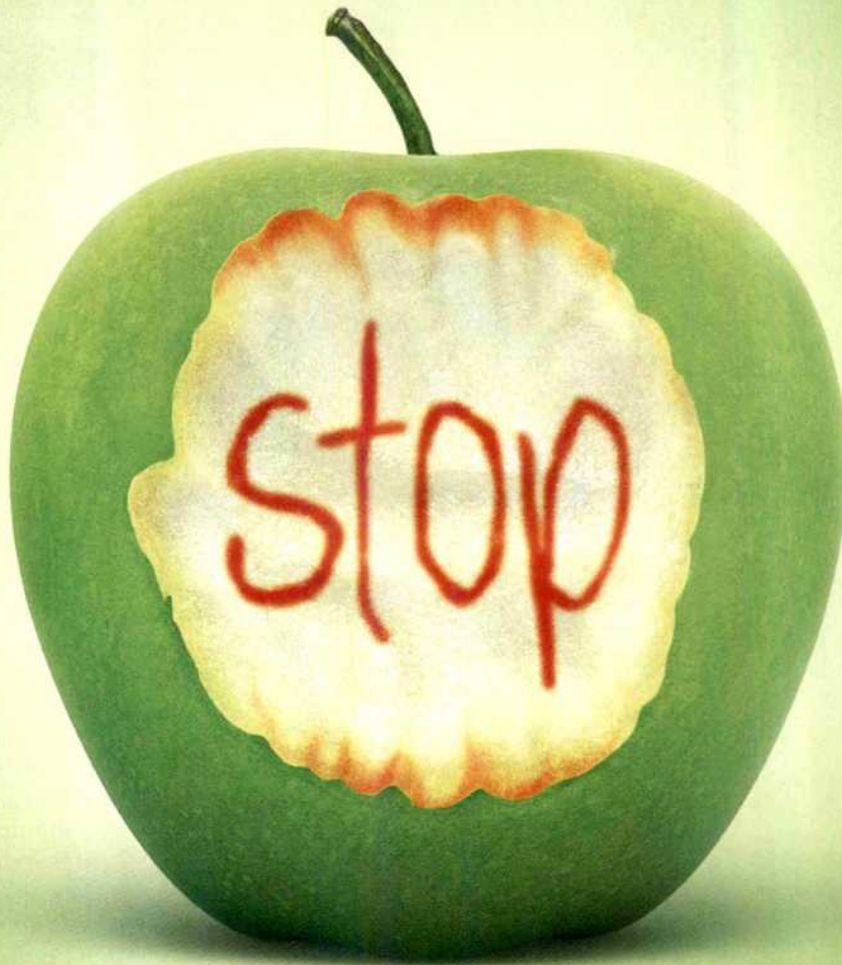
Besides, the industrial sector in the state has seen tepid growth since 2009, expanding by only 2.1 per cent in 2013/14, down from 5.5 per

cent in 2012/13. Has industry got neglected as Chouhan, the agriculturalist, chased farm growth?

But one thing is for sure that Chouhan's agricultural model can be replicated by other states. "The model is based on increase in irrigation investment and support prices," says N.R. Bhanumurthy, Professor at the National Institute of Public Finance and Policy. "States like Gujarat have made large irrigation investments. Eastern states can really benefit with higher spends on irrigation; ensuring timely water and electricity could lead to higher productivity," he adds. ♦

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**IGNORING
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“I am not going to wait for orders... I will put in money to build these plants and create these capabilities”

Kalyani Group Chairman **Baba N. Kalyani** has been trying to position himself as an equipment supplier for India's defence forces for the past 30 years, but with little success. Now the \$2.5-billion Group has a new strategy. Its defence holding company, Kalyani Strategic Systems, will not wait for orders from the Ministry of Defence. Instead, it is going ahead to build capability and capacity in artillery, air defence systems, ammunition and armoured vehicles. In an interview with **Prosenjit Datta, Rajeev Dubey and Goutam Das**, Kalyani talks about the stop-and-start nature of the defence business and what needs to change in the government's procurement policy. Excerpts:

The share of private sector companies in the government's capital acquisition orders for the air force and army stood below 2 per cent in 2013/14. How do you plan to move the needle from 2 per cent to, say, 10 per cent?

One, all of us – the industry, government, bureaucracy and the media – should strive to change the needle from 2 per cent to 70 per cent. We need to aim high. This is exactly what Prime Minister Modi has been saying. If you take his speech at the aero show (Aero India) and read it paragraph by paragraph, it is an amazing speech. I have read it 10 times. Each paragraph has a significant message. We need to set a very high goal. Two, we have an amazingly competent person today as the defence minister. He is a technocrat and an engineer. He has experience of running a small scale defence unit before he got into politics. It is a pleasure talking to him – I have had several opportunities as Chairman of CII's Defence Committee – because he has full grasp of what's going on. He may not have the solutions in place, but he has, at least, got the grasp.



Now, what are the key issues? One, the procurement policy. The intent of the policy is good. But once you read the 300 pages, (you will realise that) we need to convert it to just 15 pages. By the time you read the first 10 pages, you will just get lost. Even the most brilliant mind will say 'what does it exactly mean?' It is concocted. It is left to the system to deal with it. And, anybody can interpret anything in our system. Therefore, it needs to be clear, and it needs to be simple. Two, you need to take away all the

is government to government...

That is going to change. Why is there no questioning of PSUs? Everybody is questioning coal blocks. The Supreme Court is coming down heavily. You are right. To an extent, when you give it to a PSU, at least, no question will be asked in terms of 'have you done it a favour, or for gratification?'. Because the PSU cannot gratify the bureaucrat. But corruption is not just about gratification.

“I started much before Prime Minister Modi's government came to power”

Jane's defence handbooks. This is the world encyclopedia of what every company in the world is doing for each product in defence. It is a good thing because it is a huge information base. The bad thing is, when the system, whoever it is, is putting in the GSQRs (General Staff Qualitative Requirements for procurement of a defence product), you go to a Jane's book and pick up four companies making the same product, pick up the best element in each one of them, and compile. And then, nobody can make it happen. You get into all kinds of situations where (each action could be challenged) "you said this and you are giving this". The real issue, of what it needs to deliver in terms of force and force multiplier, and in terms of fighting power, is all lost. We will get into things like 'if it was one inch high or two millimetres more' – the non-relevant things. I am exaggerating, but we need to put in requirements that are more functional than requirements that are non-functional. If you want a gun that, say, should fire 40 km, you don't need to say 40 km, and then put 50 conditions which have no meaning. In procurement, everybody has to tick every box and then it can go on for 14 years.

Three, there's a trust deficit of going to the private sector for procurement. There is a huge trust deficit in the country, not only in defence, but in almost every field. We are all Indians. We need to be proud of doing something for this country. We need to make things happen. From an industrial point of view, we don't have more than 10 years to make this happen. Because 10 years later, technology is going to be so different that you will have a hard time even playing catch-up.

Is the government trying to avoid being questioned? When a contract is given to a public sector unit, there is no questioning. It



What has happened to the government's Long Term Integrated Perspective Plan (2012-27)?

It is there and it is very sound. There is no problem with the planning of the services. They are very clear with what they want, how much fighting power they need. The long-term integrated plan is for 15 years. It has been done articulately and we have a very competent Army, Navy and Airforce. These guys prepare the integrated plan in terms of what they need. Then it goes to a system which generates specifications – you get all the Jane's handbooks out. Then it comes to procurement, which is the Ministry. You have multiple agencies dealing with the same thing. Here, it kind of gets lost. Today, procurement supply-chain has become a science which is taught in universities. You can't look after animal husbandry somewhere for three years, and then come to defence procurement because that's where you are transferred. Defence supply-chain management is a very sophisticated science and is far more complicated and complex than the automotive and industrial world. There are different types of equipment, different vintages... coupled with certain political problems. The

“I bought the (RUAG) plant within 24 hours... and, in around 18 months, we built our first artillery gun”

bottom line here is you need to create a supply-chain organisation which is highly professional with supply-chain experts. Supply chain is not just about negotiating a price – that is a very small part. Whereas here (in the present set-up), it seems to get a larger-than-life proportion.

Why did you get into artillery guns? What is the status of the two guns that you had made?

I did it for very different reasons. I started much before Prime Minister Modi's government came to power. I have been working in the defence space for the past 30-odd years. I had made no headway.

A little over three years ago, when procurement of artillery guns made the headlines (for all the wrong reasons), we decided to get bold and show the system that Indian companies can make products which are world class, instead of trying to get an order or contract first. I went around the world – to the British Ministry of Defence because all our defence factories were built by them. It was the logical place to start. To my surprise I found that the entire British design, development of military hardware, which was part of the government, like our DRDO, is now part of Cranfield University. It is a private university. It has a department of defence research, especially in land systems. They were very open. I met a lot of professors and students. I realised it was not as difficult as everybody makes it out to be. Then I got hold of the head of artillery programme at Cranfield. I spent a lot of time to understand what I have to do to make artillery. The roadmap was clear. Sometimes, you also need luck in business. There was an artillery plant available in Switzerland belonging to RUAG. It was considered the Rolls Royce of artillery. They wanted to sell the plant because they were doing work for

the American army in Afghanistan and Iraq. That work was over because the US Army was heading home. I bought the plant within 24 hours and, in the following month, I moved it to Pune. I put 50 engineers on the project and in around 18 months, we built our first artillery gun. It was a success. Now, we have built four platforms, including an ultra light. Two platforms – the ultra light and the 155mm/52 – have gone for firing tests.

Didn't you have problems to get the trials done in India?

The government is very interested in the two programmes, the ultra light and the 155mm/52. So, they are doing the firing tests. Our problem is that as a manufacturer, we should have the ability to test. Here, we are expecting that everything will be right the first time. That can happen sometimes, but not all the time.

So the first order is still to materialise?

We don't have any order yet.

You can sink a lot of money in this business...

I have put a lot of money. I have taken a leap of faith. I took it before Prime Minister Modi came up with his 'Make in India' initiative. My initiative was not based on this scheme. But, of course, it has now got accelerated. My simple logic is if I can make a product which is better than what is available in the world today and at a price which is extremely competitive, then why would India not buy it? That is the position I took with all my business in the last 20 years. That's how I am a global business leader. Nobody

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gave me an order. I put up my new plants, I went to Europe, America. And, I got business.

Except that in defence you have one customer and you cannot export...

It is not necessarily just one customer. We went and participated in defence fairs in the UK and Abu Dhabi. The

Explosives. They make explosives, and have the land, required isolation and permissions. We have now applied for a license to make ammunition. We have already started making the metal parts. It is a question of putting the metal parts and explosives together. The only item we don't make is the fuse for which we have now tied up with a German company. We are also in the process of setting up an armoured vehicles facility. It is a specialised area. It is less of



amount of enquiries I am getting for guns is unbelievable.
Can you export?

I have to ask the defence ministry. We can export but the ministry has to give an NOC for to whom we can export. We can't export to all countries. Syria, for example.

But you can set up a plant in another country?

We don't want to do that. I have enough faith in India, and enough faith in our new administration. They mean well. I think the industry needs to take one foot forward in doing this. This is the only way you can bridge the trust deficit that is there. Part of the trust deficit comes from the fact that they genuinely believe you can't do it.

What next after guns?

We are now putting up four plants. One plant on artilleries is already in place. We are going to put an air defence system (anti-tank air defence) – a joint venture with an Israeli company – in Hyderabad. We are going to get that going very quickly. Then we are going to make ammunition because India imports a lot of ammunition. It will require a specialised facility but is not rocket science. We have joined hands with a company in Hyderabad, Premier

a vehicle and more of military technology. I am not going to wait for orders. I am going to put in money. It is risky. But, I will build these plants and create these capabilities.

How much have you invested in defence so far?

I won't tell you that. But, I will put in a ₹1,000 crore over the next three years.

You said you have been investing for the past 30 years. Did you set aside a certain amount of your turnover?

I have not been investing for 30 years. I have been trying to find out how I could supply equipment to our defence services for 30 years. I will give you an example. When the Kargil War happened, the system ran out of ammunition. One day a defence ministry official visited my office unannounced and said that the services needed ammunition for the Bofors guns as soon as possible. We had set up an ammunition line earlier – empty ammunition without explosives. But because we had no orders it was lying idle. We re-tooled it and, within six months, we delivered all the ammunition that was required. This is how a start-and-stop business can be. ♦

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Between 2009/10 and 2013/14, the debt on the books of Reliance Industries, India's largest private sector company, more than doubled – from ₹64,000 crore to over ₹1.38 lakh crore – as it expanded petrochemical capacity, ramped-up oil and gas fields, and invested heavily in the retail, telecom and shale gas sectors.

During the same period, Sesa Sterlite's debt moved up from ₹1,961 crore to ₹80,568 crore as the Vedanta group's holding company for Indian assets went on an acquisition spree. It picked up Cairn India, mining assets of Dempo Mining, Bellary Steel and Goa Energy, among others.

Adani Enterprises also saw its total debt rise from ₹17,439 crore to ₹71,980 crore as it embarked on an expansion overdrive in power, ports and edible oil refining, and bought coal mines in Indonesia and Australia.

Essar Steel, JSW Steel, Tata Power, Idea Cellular and many other big companies were also raising big sums as debt during this time, either for project expansions or for acquisitions.

₹ 2.5 lakh crore

Gross NPAs in the banking system as of March 31, 2014

₹ 10 lakh crore

Total stressed assets in the Indian banking system

Wrecked by Debt

Corporate India's borrowings have more than doubled in the
By RAJEEV DUBEY



₹ 4,52,940
crore

Total non-performing advances
to 647 companies referred to the
CDR cell as of December 2014

₹ 3,27,448
crore

Total interest paid by Indian
companies in 2013/14

₹ 41,50,597
crore

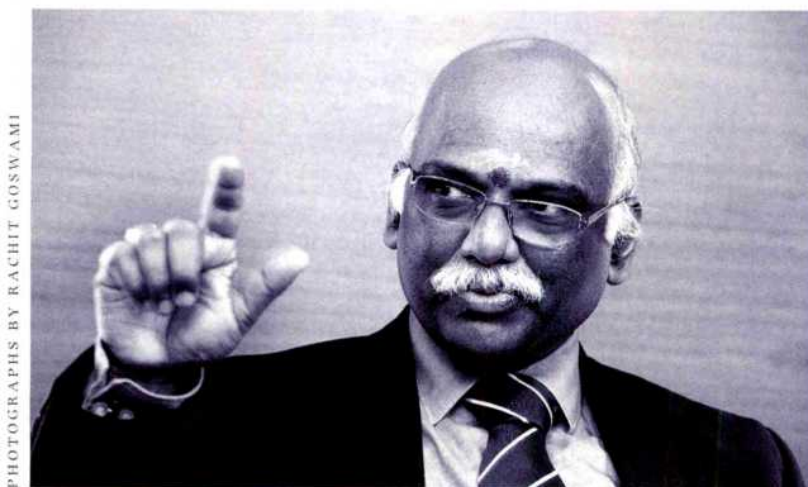
Total debt of Indian companies
as of March 31, 2014

ANAY THAKUR

past four years. It could slow down the economic recovery.

R. GANDHI, Deputy Governor, RBI

"We have been concerned about the way the asset quality has been deteriorating. Luckily, in the last 2-3 years further deterioration has been arrested"



PHOTOGRAPHS BY RACHIT GOSWAMI

It was not just the big boys with big balance sheets who were raising debt. Small and mid-rung companies with ambitions to get into the big league also went on a borrowing binge. Even companies with sales below ₹500 crore nearly doubled their debt in the four-year period.

Call it irrational exuberance, herd mentality or anything else. Even as signs of the economy slowing down became clearer, corporate India continued borrowing merrily – and banks were lending easily – to get

into hot sectors and projects and to finance their gargantuan ambitions. Promoters had little option but to turn to debt because equity markets had scared off investors and were already in the bear phase. Between 2009/10 and 2013/14, India Inc more than doubled the total debt on its balance sheets – from ₹20 lakh crore to over ₹41 lakh crore. That is roughly \$690 billion – bigger than all global economies, except 19.

Revenue growth had turned anemic but the debt size kept growing.

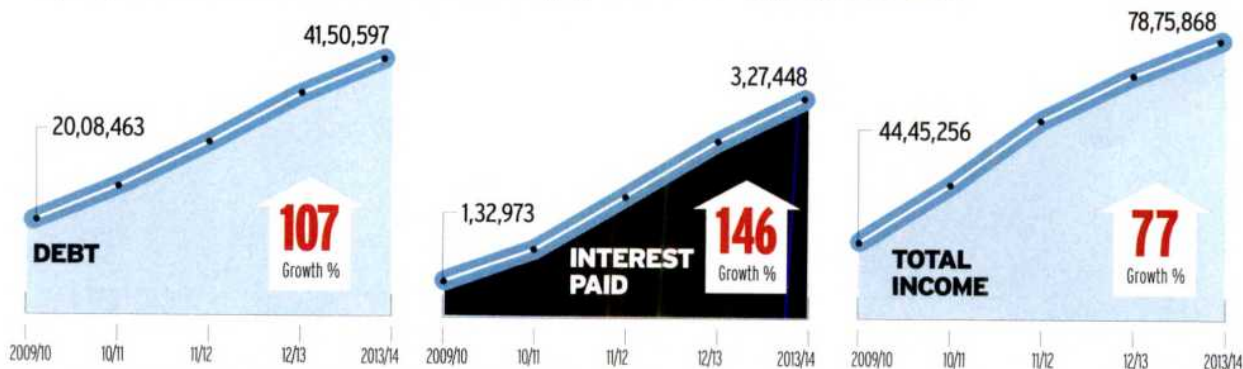
An analysis of 18,820 companies in the CMIE Prowess database shows that in the past four years, while aggregate revenues grew merely 77 per cent, their debt doubled and interest payout went up 146 per cent. Little wonder, net profits decreased by 32 per cent in the four years.

In the final days of the UPA-II government, as the economy slowed, companies like Reliance Industries and Sesa with their strong balance sheets and healthy cash flows continued to service their debt. But a vast majority of companies – both big and small – ended up in a debt trap. What's worse, while a fair amount of debt was taken to build long-gestation projects that would yield results only later, there was also a lot of debt taken which did not go into building commensurate assets. And their debt burden is today not only putting enormous pressure on the banking system, it is also threatening the nascent economic recovery.

"The corporate debt situation is very bad. In many cases the debt is very high but the assets created are very low. I don't know how the banking system gets into that. There are

FINANCIALS IN A NUTSHELL

Rapid growth in India Inc's debt and interest payments has dragged profits down



Figures in ₹ crore; percentage change from 2009/10 to 2013/14; *Profit before depreciation, interest and tax



no inventories, no working capital available but there is debt," says Siby Antony, MD and CEO, Edelweiss Asset Reconstruction Company, who has been picking up assets being hawked by banks in distress sales.

Bankers' Scare

Nobody is more worried than the banks which lent heavily – and investors in bank stocks. Effective April 1, 2015, the Reserve Bank of India (RBI) withdrew a crucial forbearance allowed to banks in corporate debt restructuring (CDR) cases. Banks will now have to provision 15 per cent for bad loans as against 5 per cent allowed till March 31, 2015. Given the growing pile of bad loans and about-to-turn-bad loans, the banks would be hit hard. They were hoping that the RBI would extend the forbearance but that was not to be.

Investors have been hammering down bank stocks. In the two months since their lifetime highs in the run-up to Budget 2015, bank stocks have been on a steady decline.

THE SURVIVOR: JSW STEEL

The Sajjan Jindal-led company has defied the odds

There are few cases of corporate debt restructuring that are as successful as Jindal Vijaynagar (now known as JSW Steel). Sajjan Jindal's ambitious plan to set up a 1.2 million-tonne steel plant at Vijaynagar in Karnataka went into a debt trap after a demand slump during 2000-2003 that forced it to sell its products below the cost of production. The ₹5,000-crore debt was restructured after promoters agreed to compensate the lenders. Years later, when lenders were looking to revive Southern Iron and Steel Company Ltd (Siscol), they sold the company for ₹1 (plus the entire debt). But steel prices surged post-2005 fueled by a jump in demand from China. Jindal paid off ₹2,500 crore of debt by selling nearly 15 per cent stake to Japanese steel company JFE Holdings in 2010 and then acquired Ispat Industries from brothers Pramod and Vinod Mittal later in the year. As JSW gained in strength it raised its capacity to 12 MTPA, which is being expanded to 18 MTPA by next fiscal. JSW still has ₹35,527 crore of debt on its books but it reported a net profit of ₹388 crore, despite paying ₹2,830 crore of interest in 2013/14.

its peak and the Bank Nifty 9.4 per cent. Equity research firm CLSA's technical analyst Laurence Balanco predicts the CNX Banks Index will decline another 15 per cent.

The Non-performers

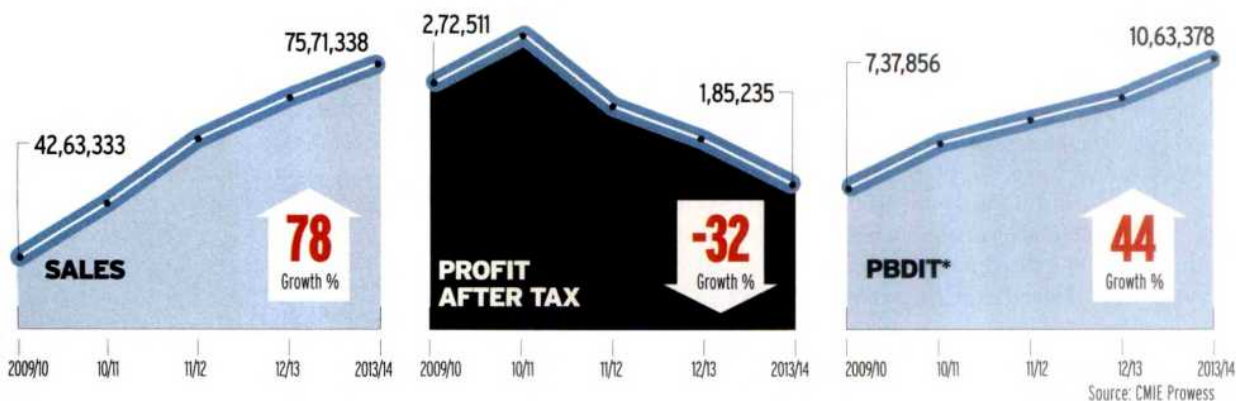
Bad or doubtful loans – or stressed assets as bankers like to call them – are everybody's worst nightmare. "We have been concerned about the way the asset quality has been deteriorating," says RBI Deputy Governor R. Gandhi. "Luckily, in the last two-three years further deterioration has been arrested."

Of the ₹63 lakh crore of advances by the banking system, nearly ₹10 lakh crore are "stressed assets". "There is one set of assets that has clearly been non-performing (NPAs), as per regulations, accounting standards, etc. There's another that can slip off into non-performing," says Gandhi.

It would be worse if companies hadn't made a beeline for the corporate debt restructuring cell for relief.

India's largest bank, the State Bank of India's share price is down 20 per cent; Bank of India's 36 per cent, Punjab National Bank's 34 per cent and Canara Bank's over 22 per cent.

In these two months the S&P BSE Bankex has fallen 9.1 per cent from



THE STRUGGLER: HCC AND LAVASA

The infrastructure builder has yet to come out of the woods

HCC had accumulated significant debt over a decade of building some of India's most iconic projects such as the Bandra-Worli Sea Link as well as Lavasa, the hill township spread of 12,500 acres, seven hills and 60 km of lakefront. It got a shock just two weeks before Lavasa's initial public offering in November 2010 when the environment ministry ordered all work at the township to stop for violation of norms. Sales dropped and HCC, which had given ₹700 crore of bank guarantee to Lavasa, went into a spiral. As of March 2014, HCC had debt of ₹4,817 crore on sales of ₹4,063 crore. Its annual interest payout of ₹483 crore had already dragged it into losses in the previous two fiscal year. In 2012, HCC approached the consortium of 27 lenders to restructure loans worth ₹3,200 crore. Four months of negotiations resulted in a CDR approval that gave a two-year moratorium on principal on the original one to three-year tenure of loans, while the repayment was stretched to eight years. Promoter Ajit Gulabchand was asked to pitch in with ₹64 crore. But the company is still to exit CDR.

"Rather than a post-mortem, if companies do a prognosis, a lot of the problems can be avoided," says Ravi Sud, Senior Vice President and CFO, Hero MotoCorp. According to the RBI's CDR cell, as of December-end 2014, 647 cases with aggregate non-performing advances of ₹4,52,940 crore had been referred to the CDR cell. Of this, 520 (₹3,80,885 crore) had been approved for action.

Loans advanced to companies such as ABG Shipyard (₹11,000 crore), Pipavav Defence & Offshore Engineering (₹7,000 crore), Bharti Shipyard (₹5,800 crore), and Hotel Leelaventure (₹4,000 crore) were sold off by the lenders to asset reconstruction companies.

But Lavasa Corporation, HCC, Gammon India and IVRCL continue to struggle under CDR while Kingfisher Airlines (₹13,750 crore at last count) has imploded. Others such as Essar Oil (₹9,100 crore) and Wockhardt

(₹3,000 crore) made a dramatic recovery after debt restructuring. Suzlon Energy (₹9,500 crore) is on the verge of exiting.

"...in debt restructuring you have to be very selective; that the cause of restructuring is genuine; that there is no case of diversion of funds; that it is not a case where even if you give a lease of life, the project does not provide the cash flows," says Ashwani Kumar, Chairman and Managing Director, Dena Bank.

The Debt Trap

India Inc's debt woes in the midst of a slowing domestic economy and a global recession have far-reaching consequences.

For one, high corporate debt combined with a slowdown acts like poison. At a time when the top line is reporting near-zero growth in real terms (excluding inflation),

just the cost of servicing debt is pulling down companies' profit and loss accounts, affecting their ability to invest in future growth.

Two, debt-laden companies will find it tough to ride any uptick in the economy whenever the slowdown relents. While most sectors are experiencing capacity under-utilisation, the level of under-utilisation (between 15-30 per cent) will get bridged within a year of GDP growth returning to healthier levels. But companies typically need between 24 and 60 months to set up new capacities, provided their balance sheets can still absorb more debt.

At that point, says Ajit Ranade, Chief Economist, Aditya Birla Group: "There is a great risk that India's growth may get harvested by the excess capacities in China."

Three, an unintended consequence of high debt is the sacrifice of new economic activity. In many ways, high debt sets off a vicious self-perpetuating cycle. For instance, distress sale of many assets in economic slowdown merely amounts to





a change of hands from cash-strapped companies to cash-rich companies. This often leads to a transfer of debt from one company to another. That's fiscal prudence but bad for economic activity. In better times, cash-rich companies would be creating new assets triggering economic growth and employment across all downstream industries.

The Debt Wish

The big problem confronting corporate India is that many companies took on enormous debt and couldn't service interest payouts with cash flows. For instance, Essar Steel's debt grew by more than ₹20,000 crore in the past four years to ₹38,379 crore. Its interest payout ballooned from ₹737 crore to ₹4,076 crore, dragging it into the red with a net loss of ₹805 crore in 2013/14. GMR Infrastructure's interest payout of ₹2,829 crore in 2013/14 was higher than its EBITDA of ₹2,597 crore, resulting in a net loss of ₹356 crore. (EBITDA is short for earnings before interest, tax, depreciation and amortisation.) As India's largest real estate firm DLF's interest payout grew from ₹972 crore in 2009/10 to ₹2,211 crore in 2013/14, its net profits fell more than two-third to ₹583 crore. Power and infrastructure firm Lanco Infratech's interest payout shot up from ₹186 crore to ₹2,254 crore in the four-year period, dragging it down from a healthy net profit to a net loss of ₹1,061 crore.

Some companies are trying to swap high-cost debt for lower-cost ones, but that is generally offered only to those with strong balance

sheets like Vedanta. "We are working on refinancing our debt due in 2015/16. The focus of the group is to de-leverage and the debt is largely obtained for refinancing for cost reduction or extending the debt maturity profile," says Tarun Jain, Whole Time Director, Vedanta Resources, whose holding company for India businesses – Sesa Sterlite – has total debt of ₹80,568 crore.

It was the exuberance of corporate India that got them to this state as it ignored the global economic

crises post 2008 and continued to raise debt as if there was no tomorrow. India Inc's debt grew by 27 per cent a year for three years after the Lehman crisis, when the global economy had come to a standstill.

Its hopes lay in India's consumption-targeted economic stimulus announced in December 2008. The surprise 'mini-budget' as it was called, just months before the Union Budget of 2009, effected an across-the-board cut of 4 per cent in Central Value Added Tax to make textiles,

THE FAILURE: KINGFISHER AIRLINE

Excessive borrowing marred the carrier's grand ambitions

The dream of creating a world-class airline out of India turned sour at Kingfisher Airlines when the company over-leveraged itself, paid high borrowing costs, failed to control operational expenses and made the fatal acquisition of low-cost carrier Deccan Aviation in 2007. The airline never reported a net profit since its inception in 2005. By 2012, when the airline was grounded, its accumulated losses had crossed ₹8,000 crore. Repeated attempts by banks to revive the airline failed. A State Bank of India-led consortium of 14 banks, which advanced the original corpus of over ₹7,400 crore to the airline, had even converted part of their debt into an equity stake of a little above 23 per cent. But the airline's share price dropped to as low as ₹1.5, wiping out the investment. With promoter Vijay Mallya failing to bring in fresh equity, today, the airline's total outstandings (including principal and interest) to the banking sector stands at more than ₹13,750 crore.

V.N. DHOOT, Chairman, Videocon Industries

"The international practice is to give 30-year finance for infrastructure. In telecom, for instance, a project is in losses for 10 years. It starts earning money from the eleventh year onwards"



₹7.9 lakh crore
India Inc's short-term debt as of March 31, 2014

cars, cement and other consumption goods affordable. The package also set aside another ₹20,000 crore for infrastructure, exports and industry. It set back the government by ₹8,700 crore in terms of revenue generation but was expected to buoy auto, housing, textiles, SME and the export sectors, besides others. That was not to be. When the slowdown hit, corporate top line, which was growing at a healthy 22-23 per cent a year crashed to 10 per cent (zero in real terms, excluding inflation) growth in 2012/13. Companies slashed expenses but could not prevent the shock effect on the bottom line. Profit after tax slid 32 per cent in the past four years.

Prudence Sacrificed

This was also the phase of a definite regulatory eclipse, such that the banking system remained oblivious to several corporates raising their debt to unsustainable levels of debt-equity ratios.

It's for banks to decide the company's debt-equity ratio they are comfortable to lend at. Prudence demands the ratio be between 1:1 and 1:3. However, several companies, such as Kingfisher Airlines, still notched up outrageous

debt-equity ratios going up to 1:10 or more. How?

RBI's Gandhi says that was due to lack of information sharing between banks as one bank didn't know what another bank was lending to a company. The RBI has since mandated information sharing through large credit repository where every bank has to report all advances of ₹5 crore and above so that other banks have information about a company's or group's full debt exposure. "Downstream, ratios may have increased because of additional funding but upfront if they knew that the ra-

tio was 1:5 or 1:10, no banker would have ever touched it. It was refinancing and more financing that led to those ratios," he explains.

The Sectoral Skew

About the time the government was preparing to launch the Ultra Mega Power Projects (UMPPs) in 2006/07, India Inc. went into a mad rush to set up power plants. The power sector slipped into chaos right after for a variety of reasons: unrealistic bidding in UMPPs; the government's inability to supply gas and coal to plants; and land acquisition and environmental delays. But by 2013/14, debt to the power sector had trebled to ₹9.5 lakh crore (see *Bundle of Woes* on page 63). Till date, that remains the biggest bugbear of the banking industry. State-run NTPC has the maximum debt of ₹81,506 crore, followed by Jaiprakash Associates (power, roads and real estate) at ₹72,593 crore, Adani Power ₹44,150 crore and Tata Power ₹40,309 crore.

Gandhi says five sectors form the bulk of the stressed assets list: infrastructure, iron and steel, textiles, chemicals and petroleum. The RBI is paying special attention to the infrastructure sector, especially power. Of the ₹63 lakh crore of total advances, infrastructure accounted for nearly ₹10 lakh crore. "The infrastructure sector is very weak because of delays in government decision-making, cost increases, slow economy, and environmental



ASHWANI KUMAR, CMD, Dena Bank

"My corporate book has come down by ₹5,000 crore over one-and-a-half years. It's not that we are not financing but the focus is more on retail and MSMEs to rebalance our books"

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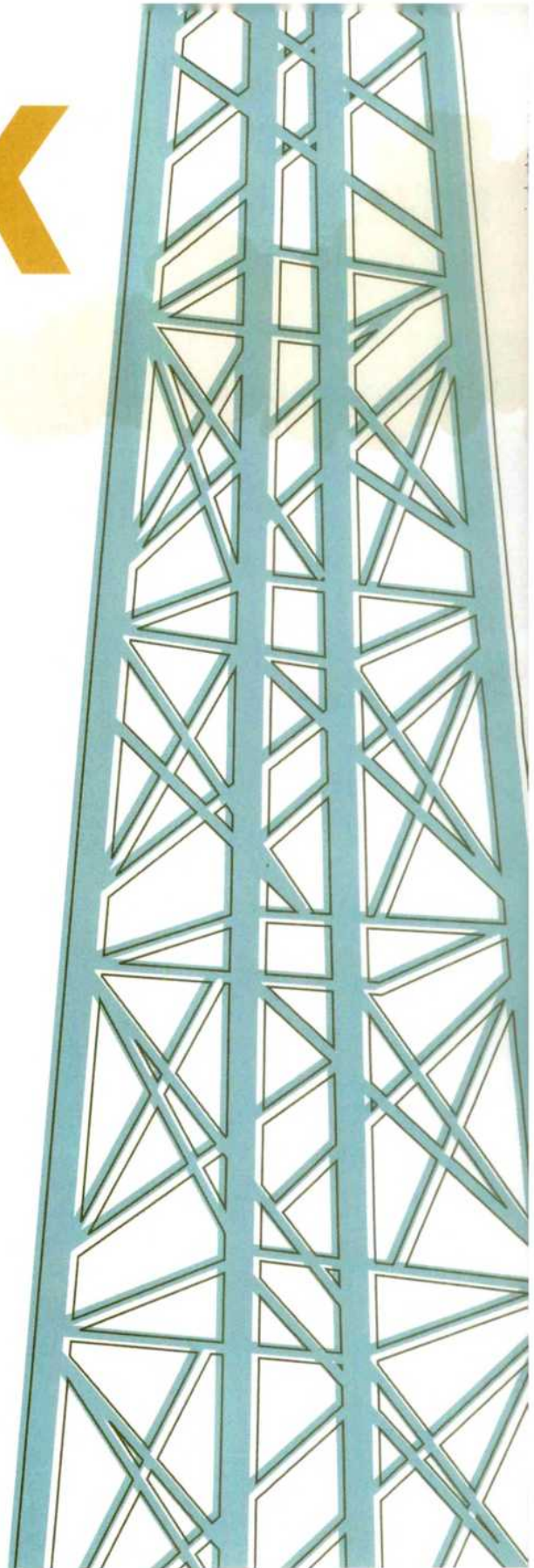
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BIGGEST BORROWERS

A list of the 25 most indebted Indian companies

Company	Total Debt (₹ cr)
Reliance Industries	1,38,761
Indian Oil Corp	94,969
Larsen & Toubro	83,650
Tata Steel	81,629
NTPC	81,506
Sesa Sterlite	80,568
Jaiprakash Associates	72,593
Adani Enterprises	71,980
Hindalco Industries	64,756
Tata Motors	60,892
Oil & Natural Gas Corp	49,126
Hindustan Petroleum	47,998
GMR Infrastructure	47,341
Adani Power	44,150
Reliance Communications	41,978
Videocon Industries	40,783
Tata Power	40,309
Essar Steel India	38,379
Jindal Steel & Power	36,532
JSW Steel	35,527
Mahindra & Mahindra	35,414
Bhushan Steel	35,328
Lanco Infratech	34,347
Bharat Petroleum	33,152
Reliance Power	30,050

Source: CMIE Prowess

clearances," says R. Govindan, Vice President, Corporate Finance and Risk Management, Larsen & Toubro (L&T).

The second most indebted sector, metals and mining, is being pulled down by steel, which has been hit by imports. Even though steel demand in 2014/15 has grown at 3 per cent against just 1 per cent in the previous fiscal, the uptick in demand has been clouded by a 67 per cent (8.5 million tonnes) imports surge while exports have fallen by 11 per cent.

"It is showing the external economy is not doing well. Also, the competitiveness in terms of the rupee being stable and other currencies depreciating against the dollar together have hurt domestic exports," says Seshagiri Rao M.V.S., Joint Managing Director of JSW Steel, which has a total debt of ₹35,527 crore.

Brakes on Capex

India Inc. had to do something more drastic than just tightening its belt. So 2012 was the watershed year when all hopes of a quick recovery died and corporate India began bracing up for a long haul in a rapidly slowing economy. It's at this point that growth in debt raising slowed from 27 per cent in 2011/12 to 18 per cent in 2012/13 and 17 per cent the year after.

In fact, the deterioration in investment cycle began in 2010. Between 2002 and 2008, India's investment as a percentage of GDP went up from 25-26 per cent to 36-37 per cent. "That was 24-25 per cent year-on-year growth. That part of growth has completely gone missing," says L&T's Govindan.

This was also the period when those who had to prepay debt, did so. For instance, domestic oil and gas

producer Cairn India reduced its total debt from ₹3,401 crore in 2009/10 to nil in 2012/13. Real estate major DLF, whose debt pile had peaked in 2007/08 when it was buying massive land bank, also managed to reduce its debt marginally from ₹27,597 crore to ₹24,210 crore in the past four years.

The Lifeline

When the RBI got around to the task of deciphering the cause of the problem, it zeroed in on the most stressed sector first — infrastructure. Besides over-leveraged balance sheets, the sector had a unique problem.

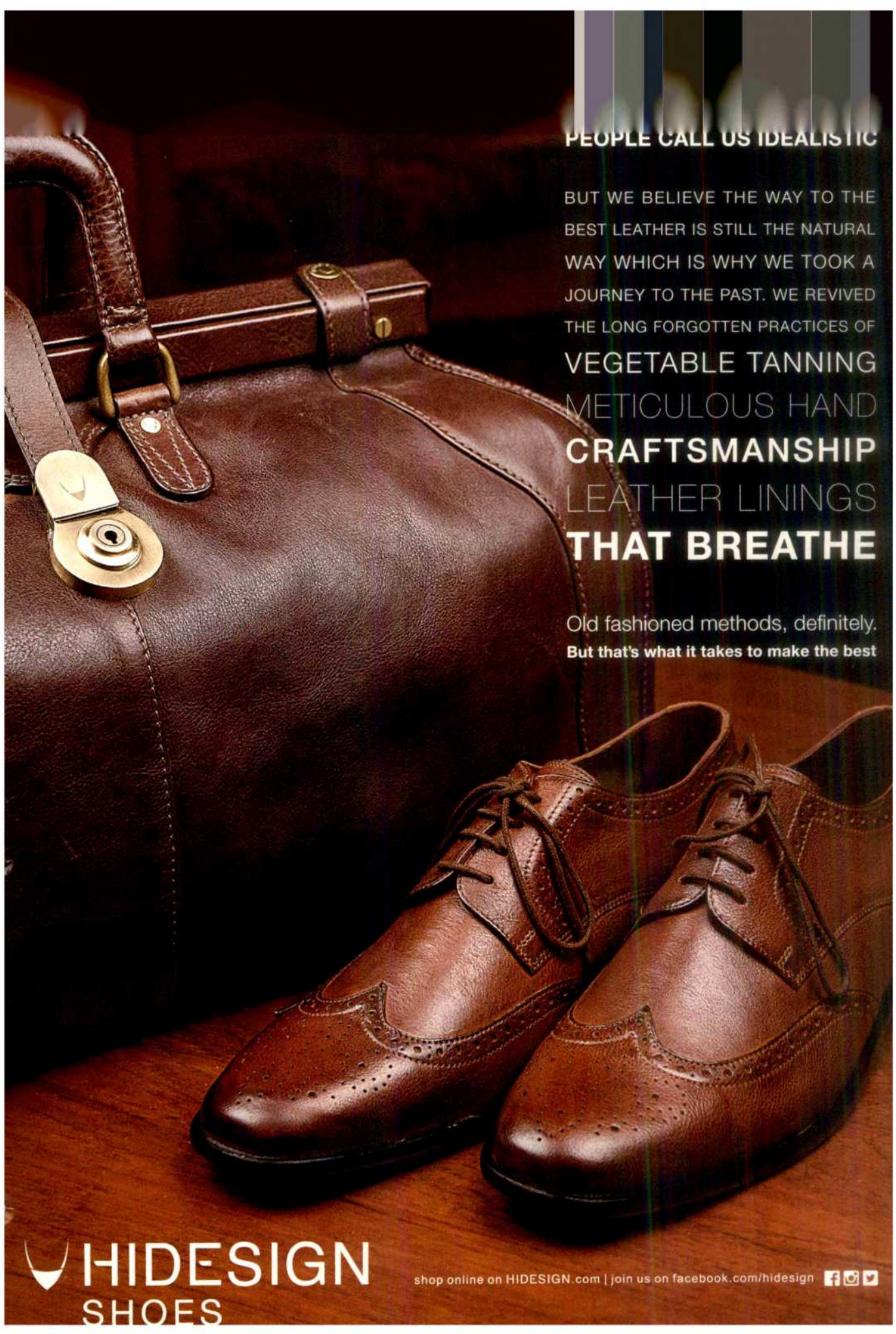
When banks financed infrastructure projects with a lifespan of 25 to 30 years, their loans were structured for a maximum of seven years. That front-loaded the financial cost of a 30-year asset. And every time the project schedule was disrupted by delays, the project was already an NPA in banks' books. "Nobody told them so but banks had assumed that being banks they cannot have exposure past seven years," says RBI's Gandhi.

While the government has now decided that all future UMPPs will be bid out only after acquiring land and securing all clearances, on its part, the RBI has extended a lifeline that could be a game-changer for the infrastructure sector.

The RBI's guidelines, popularly known as 5/25 norms, explicitly permitted banks to structure loans for 25 years while giving them the flexibility to revise rates or sell the asset to another bank every five years.

"The international practice is to give 30-year finance for infrastructure. In telecom, for instance, a project is in loss for 10 years. It starts earning money from the eleventh

₹ 63 lakh crore
Total advances of the banking sector

A large, dark brown leather bag with a metal clasp and a pair of brown leather brogue shoes are the central focus of the advertisement. The bag is made of smooth leather with visible stitching and a metal clasp. The shoes are also made of smooth leather with brogue patterns. The background is dark and textured.

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HOPES RIDE ON BONDS

Why a corporate bond market is important

Clearly, a vibrant bond market is the need of the hour. But the big debate is how should India develop the bond market so that it is as viable an option as the equity market for retail investors? To start with, can it be on a par with the benefits in capital gains tax that equity investors enjoy? Also, can more players be brought into the bond market by reducing statutory liquidity ratios (SLRs) or allowing pension or insurance funds to put more money in corporate bonds. Besides, what must be India's policy on hedging instruments like credit default swaps and interest rate swaps, which are not being used at all.

Should India Inc., for instance, be permitted to raise rupee bonds overseas (the RBI has allowed IFC to raise rupee bonds overseas)? Industry reckons long-term pension funds abroad would be willing to invest for returns

of 9-10 per cent on an un-hedged basis.

More importantly, can companies be allowed to raise foreign currency convertible bonds (FCCBs) abroad with fewer restrictions, including corpus (\$750 million a year) or interest rate caps, tenor (minimum of five years) and raising FCCBs only through approved lenders.

The RBI, on its part, has allowed banks to issue long-term bonds to support infrastructure lending for 25 years. In turn, they get exemption from cash reserve ratio, SLR and priority-sector lending norms so that the costing can be competitive. This should help banks raise fresh funds rather than use the existing deposit base.

But most importantly, the measure will help create a quasi-government yield curve, since nationalised banks' bond yield curve can be deemed as a government yield curve, says RBI Deputy Governor R. Gandhi.

year onwards," says Venugopal Dhoot, Chairman of the diversified Videocon Industries, which had a total debt of ₹40,783 crore as of March 31, 2014.

Rational Exuberance

But guess why did some companies got into trouble while others didn't? These are those that kept their cool. Take Mahindra & Mahindra (M&M), for instance, which fueled most of its growth through internal accruals even in times when money was easy to come from banks. "It was never adventurism. We won't take \$2 billion and wait for something to turn up," says V.S. Parthasarathy, Group CFO, M&M.

Hence, despite 60 acquisitions in the past six years, M&M's debt equity ratio stands at 0.3. The ceiling the company set for itself was 0.5. That has been possible by inviting private

equity players to participate in acquisitions. M&M offers up to one-third of equity – in rare cases, even higher – to PE players. "Alone, our money can only go so far but with partners it can be extended," says Parthasarathy.

At engineering major L&T, "We were able to perceive a 4 per cent GDP growth in 2010 when it was 9 per cent. We had scenarios for 4-4.5 per cent GDP growth," says Govindan. It's not as if other companies do not discuss the worst-case scenario or the fabled 'Plan B'. Almost all of them do. But the trick lay in keeping that at the core of the strategy.

M&M also actively works on two financial metrics, margin of safety

and return on capital employed (ROCE). In both cases, the benchmark is 50 per cent. In margin of safety, the business must target resilience where it must be profitable even if demand falls 50 per cent. In the last quarter when domestic tractor demand fell 25 per cent and the auto market fell 11-12 per cent in revenue terms, M&M reported a 12 per cent EBITDA margin. In ROCE, it targets a nearly unrealistic level of 50 per cent. "It's a North Star for people to look at. There are businesses in my group which do that," says Parthasarathy.

It wasn't just the borrowers who exercised caution. Some lenders were prudent, too. At HDFC Bank, corporate term lending was largely restricted to companies with whom the bank had a working capital relationship. "We understand the customer better, we understand the nature of his business and we understand his

R. GOVINDAN, VP, Corporate Finance & Risk Management, L&T

"The regulatory oversight will have to keep in mind the difficulties being faced in the real economy"

cash flows far better. That gives us a very good insight into...the customer," says Kaizad Bharucha, Executive Director, HDFC Bank.

The Unresolved

But despite the RBI's 5/25 lifeline, India still remains at sea about how to fund infrastructure, which is the only hope to revive stressed assets. "Infrastructure is a sticky issue that we haven't been able to solve. If you use conventional bank credit, you are heading for trouble because of the asset liability mismatch," says Aditya Birla Group's Ranade.

And though Budget 2015 has proposed a ₹20,000 crore equity funding to an infrastructure fund, it's only a fraction of the \$500 billion infrastructure funding needed over three to five years. In the 12th plan the aspiration was to reach 9 per cent of GDP as investment in infrastructure every year to meet India's needs in telecom, railways, power and other sectors. We are not even at 5 per cent.

The credit flow also has to increase. Ideally, it should be from special purpose long-term contrac-

UNDER STRESS

The top banks by the amount of bad loans on their books

Company	Absolute Net NPA (₹ crore) 2013/14	Net NPA Ratio (%) 2013/14	Total Advances (₹ crore) 2013/14
State Bank of India	31,096	2.57	12,09,829
Punjab National Bank	9,917	2.85	3,49,269
Bank of India	7,417	2.00	3,70,734
Central Bank of India	6,649	3.75	1,77,315
Bank of Baroda	6,035	1.52	3,97,006
Canara Bank	5,965	1.98	3,01,067
Allahabad Bank	5,722	4.15	1,38,007
Indian Overseas Bank	5,658	3.20	1,75,888
Union Bank of India	5,340	2.33	2,29,104
IDBI Bank	4,902	2.48	1,97,686
United Bank of India	4,664	7.18	65,768
Oriental Bank of Commerce	3,904	2.82	1,39,080
UCO Bank	3,556	2.38	1,49,584
Andhra Bank	3,342	3.11	1,07,644
ICICI Bank	3,298	0.97	3,38,703
Corporation Bank	3,181	2.32	1,37,086
State Bank of Hyderabad	2,985	3.12	95,654
Indian Bank	2,764	2.26	1,22,209
Syndicate Bank	2,721	1.56	1,73,912
State Bank of Patiala	2,405	3.17	75,937
State Bank of Travancore	1,929	2.78	69,405
Punjab & Sind Bank	1,919	3.35	57,239
Dena Bank	1,819	2.35	77,554
Bank of Maharashtra	1,807	2.03	88,920
State Bank of Bikaner & Jaipur	1,771	2.76	64,172

Source: CMIE Prowess



Interview with R. Govindan at businesstoday.in/larsen-govindan

V.S. PARTHASARATHY, Group CFO, Mahindra & Mahindra**"There are very stressed balance sheets out there but there are also those with a pile of cash to start investing"**

tual savings. In developed markets it's long-term bond financing. But India doesn't have a well-developed bond market.

China, for instance, has gone as far as ignoring the NPAs arising out of infrastructure financing. "It's the other extreme and I am not advocating that. They have decided they need infrastructure and in the policy making framework they have completely violated this aspect," says Ranade.

Struggle for Viability

So how should stressed assets be made viable? A suggestion that bankers scoff at is a relaxation in the NPA accounting norms until the economy improves. But analysts question whether the RBI needs to obsess over reporting NPAs on the 181st day. Because the moment an asset is declared an NPA, it begins to attract penal interest rates and penal provisions, which, in turn, is counter-productive when the project requires nurturing.

"It's possible to work with the banking system so that you take care of the next 180 days or 270 days," says Ranade. "Hopefully, by then demand would pick up and the asset will start earning cash."

"Regulatory oversight must keep in mind the difficulties in the real economy. If we become



too tight in terms of Basel norms, we are forcing situations of closure," says L&T's Govindan.

For instance, infrastructure lending by the banking sector has already hit the 16 per cent ceiling prescribed by the RBI. Hence, banks are in no position to take fresh exposure.

"If growth takes off, the big question is where will the money come from? Today that debate is not there because investment cycle has not started," says JSW's Rao.

CDR Challenges

If that's any solace, one of the big positives of corporate debt restructur-

ing is that just 32 cases were brought before the CDR cell in 2014/15 versus 101 in 2013/14. Pipavav Defence (since approved), Concast and Orissa Manganese and Minerals, among others, were referred for CDR.

But the CDR mechanism itself is prone to delays. Since most corporate debt is through consortium lending, all agreements among lenders and borrowers facilitated by the CDR cell still go to their respective boards for sanctions. While the idea of CDR was to get the project going, new caveats delay loan restructuring.

"Are we happy with the CDR mechanism? It cannot be said fully that we are happy. Every new regulatory arrangement we bring on, the system tries to beat it: BIFR, SICA, SARFAESI, DRT. CDR has its own lacunae. That's why we had to bring in JLF (joint lenders' forum) to build incentives and disincentives," says

RBI's Gandhi.

Under JLF, borrowers and lenders have to reach a conclusion about the prompt corrective action plan. Should they agree under JLF, banks are incentivised in provisioning. If they don't, there are disincentives built in.

About a fourth of the sacrifices in restructuring have to be brought in by the promoters. And that is where most CDR proposals fail. As of December 31, 2014, 155 cases with aggregate debt of over ₹50,000 crore had failed either because the promoters could not bring in more money

**₹ 10
lakh crore**

**Total advances to
the infrastructure
sector**

through equity, the industry deteriorated, or interest rates didn't reduce as per plan.

But the RBI insists CDR cannot succeed unless promoters bring in more money. "Corporates will have to raise additional capital, which they have been shunning for long. They are not raising capital from the market at all," says Gandhi.

Caution Ahead

The net effect of the collateral damage is an over-cautious banking system that has substantially tightened due diligence.

Banks have introduced several covenants: Where will you bring in equity from? What type of project? What will you do with vendors? How will you deal with project cost increase? Earlier you could do proportional promoter equity. But now, banks require the promoter to bring in equity upfront.

Banks have also introduced a governance architecture, an escrow mechanism and are also over-securing assets. Most of these norms may not be new but they are a lot tighter now. And while earlier the assumption was that regulatory approvals will happen along the way, now banks insist on approvals upfront before releasing funds. "Earlier, there was a lot more trust. Now, you have to prove it legally to the lawyers," says Govindan of L&T.

The RBI is, in fact, set to tighten promoter and corporate group exposure limits. Banks are currently allowed to lend up to 15 per cent of their capital funds to an individual company and 40 per cent (which can be enhanced by the company board to 50 per cent) of capital funds to a group of companies owned by the promoter.

New group exposure limits have no distinction between a promoter and his group. Instead, banks will now have to cap the combined exposure at 25 per cent of its capital. In an additional step, banks will now have to consider any "economic inter-

connect" in its exposure to the individual or group as against the previous norm of including only majority equity holding that gave a promoter or group absolute control over another entity. "Economic dependence is the international norm," says Gandhi. Hence, if a firm is economically dependent, exposure to that firm would also fall under the group exposure limits.

Getting Out of the Hole

So what needs to be done to get out of the mess? "Recent policy decisions taken by the government will all lead to major projects today considered as stressed, come out. In the next fiscal, hopefully, total stressed assets should reduce," says Gandhi.

Clearly, the infrastructure sector has to extricate itself. And there, says Aditya Birla Group's Ranade, "The public sector will have to lead the way."

The good news is that even when the central fiscal deficit has risen, for the state governments the fiscal deficit as a percentage of GDP has contracted by 1.5 per cent over 15 years. Their primary source of revenue comes from liquor taxes and real estate stamp duties – both businesses have grown in strength. Buoyed by the new 42 per cent share of the Centre's revenues and the likely implementation of the Goods and Services Tax, if state governments can play a more significant role in infrastructure development, the Centre will have that much less to worry about.

And some industries believe they are seeing green shoots of recovery. "Two years back if you met a customer, you only asked for money/receivables or sorted out a dispute with him. Now, there are a lot more discussions on newer projects," says Govindan. "It's a big illness. You need time for recovery." ♦

RESEARCH INPUTS BY
JYOTINDRA DUBEY

@rajeevdubey

BUNDLE OF WOES



Sectors with maximum debt
as of March 31, 2014

DEBT (IN ₹ CRORE)



Power

9,52,536



Metals and Mining

3,88,593



Oil and Gas

3,58,251



Telecom

2,89,761



Textile

2,35,314



Trading

2,17,157



Transport and Logistics

1,81,102



Infra and Industrial construction

1,69,528



Real Estate

1,41,113

Source: CMIE Prowess



हमारे मार्गदर्शक

स्वामी रामदेव जी महाराज

जड़ी-बूटियों से निर्मित केश प्रकृति के लाभ का स्वस्थ रखे केश,



खाने के अलावा शैम्पू, कंडीशनर, फेसवॉश, साबुन व क्रीम आदि से कैमिकल्स का जहर धीरे-धीरे शरीर पर खराब असर डालता है। अतः जड़ी-बूटियों से निर्मित पतंजलि के प्राकृतिक शब्द उत्पाद अपनाएँ।

कांति एवं अन्य सौन्दर्य उत्पाद एी गुणों से संपन्न करे सौंदर्य वर्धन



आचार्य बालकृष्ण जी महाराज



पतंजलि

सबका स्वास्थ्य

सबकी सेवा

SPECIAL REPORT



WHERE TO INVEST IN 2015

By Vikas Gupta | S. Naren | Ridham Desai | Dhawal Dalal | Lakshmi Iyer
Sunil Rohokale | Sanjay Dutt | Lovaii Navlakhi | Swapnil Pawar
Amitabh Chaudhry | Sandeep Shanbhag

It

has been a roaring year for equity investors with the Sensex rising 25 per cent in the past 12 months, the best returns in a financial year since 2009/10. Fixed-income instruments also gave good returns with the benchmark 10-year government securities yield falling by 131 basis points to 7.79 per cent from 9.10 per cent during the same period. Though it was a good year for both equity and debt investors, the fact that the Indian investor was back to the equity markets is encouraging. The influx of retail investors saw equity mutual fund inflows surging to over ₹62,500 crore in 2014/15, the best year in almost a decade for the mutual fund industry.

The optimism in the stock market was fuelled by the Narendra Modi-led government at the Centre. The buoyant mood led to expectations of policy reforms, which further drove growth. The other reason why investors moved to the equity market was the performance of physical assets – real estate and gold lost charm. Gold, for instance, lost 11.5 per cent in the past year. Even the commodities cycle fell and, going ahead, the pain is expected to persist. The global economic slowdown and excess supplies have seen crude oil prices plunging by 53 per cent and exotics, such as art, have still not found favours among investors after running into rough weather towards the end of last decade. Real estate is still reeling in pain and it is likely to persist for another 18 to 24 months with most builders sitting on inventories for 60 months.

FII funds have been the lifeline of the Indian market. If foreign investors continue to pump in money into Indian equities, the market will keep surging irrespective of what happens. In the past three months FIIs have invested nearly \$5.9 billion (compared with \$3.6 billion in 2014), of which \$1.9 billion came in March. FIIs will continue to invest if the Indian economy records robust growth. Indeed, global investors are eyeing opportunities in two markets – India and the US. India has received the highest foreign fund inflows among emerging markets in the past year. While foreign investors are positive on India, the government also needs to push key reforms. Meanwhile, if pressures on food prices exist it will restrict the Reserve Bank of India (RBI) from cutting rates.

With corporate India not out of the financial mess and benefits of the rate cut likely to be visible only after five-six months, investors should follow an asset allocation strategy rather than dabbling with different investment products. With limited options, investors should have a balanced approach between equities and debt. However, after a great year, the outlook should be one of guarded optimism and investors must not get carried away with last year's performance. One way of diversifying this year could be dividing equity and debt investments with a minimum exposure of 30-40 per cent in debt and 60-70 per cent in equities. For detailed advice on investing from market experts, turn the page. ♦

MAHESH NAYAK

25%
Gains for the Sensex
in 2014/15, the highest
since 2009/10

₹62,500
crore
Inflows in equity MFs,
the highest in a decade

\$5.9 billion
FII investment
in the India market in
January-March 2015



Plus, Santosh Kamath (left)
on debt investments and
Sandeep Batra on retirement
planning at [businesstoday.in/](http://businesstoday.in/investment2015)
investment2015

Markets Still have Steam Left

Vikas Gupta

The Sensex has touched 30,000 and the Nifty 9,000, and they are now tracing back towards 27,000 and 8,000. A lot of market participants seem nervous. Everyone is wondering that markets were probably overvalued and a fall was imminent. So is the market really overvalued?

As a value investor we do not pay attention to the headline Sensex and Nifty numbers. It is immaterial what the Sensex's value is today. What matters is: Are the fundamentals of the companies intact? What is the valuation? Are companies available at a discount to their intrinsic value?

The Sensex was at 21,000 in January 2008. It reached 21,000 again in January 2014. So, for nearly six years the markets went nowhere. It had reached the same level at the end of 2010 and January

2011, after which it had fallen again. From January 2014 to January 2015, the Sensex rose about 32 per cent, the BSE midcap index by 58 per cent and the BSE small cap index by 74 per cent. So, are the markets ready for a fall?

Take a look at how the fundamentals have evolved from 2008 onwards. The total market cap of companies rose 50 per cent from 2008 to 2015, with most gains in the last one year. During this seven-year period, book value and sales have tripled. This indicates growth in market cap lags growth in book value and sales. The only concern is debt, which has surged nearly 400 per cent.

Let's switch our attention to the fundamental and valuation ratios. The Return on Equity on a "Smart Alpha" portfolio of "investment grade equities" is 19.3 per cent, versus 17.3 per cent for the benchmark. The net debt-to-equity of this portfolio is a negative 0.04 (i.e. it is cash surplus to that extent) as compared to the benchmark's 0.38. Interest coverage is more than 40 times as opposed to nine times for the benchmark. This means there are still a lot of companies where one can invest without worrying too much about losing capital if one has a long-term investment horizon. Of course, anything can happen in the short term. And, if one invests with a margin account or using leveraged instruments like options, then one can lose money with these equities as well. Also, investors should keep away from companies that have increased their debt way out of proportion to

their fundamental growth.

The valuation of the benchmark is at a price-earnings (PE) trailing ratio of 21.24, which looks very high. However, our Du Pont analysis shows earnings are cyclically depressed given their "normalized earning power" and so the PE ratio gives the wrong picture. A better valuation ratio would be Price to Book Value (PBV). This is at 2.63 for the top 500+ companies that we have analysed. This is below the median PBV of about three while the peak PBV goes to nearly 5.8-6. On that basis, the market is not crazily overvalued. But we would caution investors to focus on low-debt companies with strong balance sheets that are undervalued.

One should not be swayed too much by near-term news flows but use them as opportunities if there is a market fall to pick high-quality companies. Invest in them for the long term and rejig your portfolio every year or so with quarterly reviews with an eye on maximising long-term tax-free capital gains. Our market outlook report for the next five years clearly shows that, barring some unforeseen black swan event(s), the Indian economy and markets are poised for an earnings CAGR of 20 to 30 per cent. This should be accompanied by similar growth in market caps and, hence, investor wealth. ♦



The author is Executive Vice President - Traded Markets and Investment Research, Arthveda



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Keep Expectations in Check

S. Naren

For much of 2015, the stock market has behaved like a sentiment machine – at times, driven by optimism and, at other times, reacting to global headwinds. That is the beauty of the market and investors should learn to take this in their stride. In the short run, we have seen uptick in the market, helped by a rate cut from the RBI. On the flip side, headwinds from Europe and the US along with richer domestic valuations should keep optimism in check.

We expect 2015 to be volatile with reasonable uptick and some instances of down-draft based on local and global news. After two good years in 2013 and 2014, it would be preferable for investors to moderate their expectations. It is, of course, impossible to predict the market, so investors should not be swayed by past returns. From a valuation perspective, any consolidation is healthy for the markets and keeps expectations in check.

One of the top expectations for this year is a rate hike in the US, and currency headwinds globally. It may be diffi-

cult for the US to have higher interest rates while the rest of the developed world is conducting some form of quantitative easing. Europe is on a bond-buying spree, and so is Japan. This scenario is tantamount to tightening in the US.

However, if the US does raise interest rates due to a strong economy, it will definitely impact global markets. Equity markets are pricing a low- or zero-interest rate environment. A rate hike in the US will mean equity assets get re-priced, which will offer opportunities across equity assets.

In India, economic expansion is slowly taking root. The current account deficit is under control, wholesale inflation is negative, and the rate cut cycle has begun. Towards the end of the year, substantial rate cuts may be needed for economic expansion. There is a huge scope for the long-term investor as the economy expands. Lower oil prices also bode well for the government.

In the Budget, the government has done well to reiterate the fiscal consolidation roadmap, provide visibility on the capex cycle and focus on infrastructure. The government's finances are looking much better. Taxes have been raised. Oil subsidies are headed lower. Higher revenue and lower expenditure is a good combination for the government.

In such an environment,

the highly leveraged segment is likely to do well. A 50 basis-point rate cut, once passed through to the broader economy, will reduce the interest burden of leveraged companies. Many debt-laden companies did badly relative to the rest of the market, and some of them are well-poised to make the most of lower rates.

Debt-ridden companies may not necessarily have the best financials, so it requires intensive research to narrow down to specific companies. Financials is another area that looks promising. Public sector banks require capital and lower interest rates should benefit banks as it will improve growth and reduce bad loans. A combination of lower interest rates, lower bad debts, and capital infusion is positive for the financial sector. Also, visibility on capex revival through increased government spending and addressing issues of financing infrastructure projects could benefit certain infrastructure sectors.

With the current price of crude and good growth prospects, India is the most attractive emerging market in the world. Equities, albeit not cheap, remain a good long-term investment option. The outlook for equity markets is very positive for next three to five years. Even debt markets offer good opportunities, with interest rates headed lower. ♦



RACHIT GOSWAMI

The author is Chief Investment Officer, ICICI Prudential AMC

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Taking Stock of Equities

Ridham Desai

Indian equities continue to be in a sweet spot. The macro is healing, and combined with a likely decline in short rates and improvement in growth backed by rising government expenditure, equities are poised to do well. India has finally managed to control inflation expectations through a combination of pervasive government control on expenditure, positive real rates maintained by the RBI and global disinflationary trends. This will allow the RBI to cut rates more sharply. The government's expenditure control over the past year has hurt growth in recent months, but the move was essentially to rein in inflation. The new fiscal year is starting with higher expenditure growth budgets especially in infrastructure and may lead to better growth. Structurally, India appears to be the brighter star in the global picture with its relatively low debt, favourable demographics and lack of deflation pressures, and is possibly inflecting into higher growth.

The biggest debate in the market, however, is the earnings cycle. In recent quarters, earnings were weak with revenue growth dipping to a seven-year low. Our macro models suggest that the earnings cycle is likely to turn in 2015. Over the coming two years, we see earnings compounding at 18 per cent for the broad market led by improving margins. In the past five years, margins have dropped by 500 bps to near all-time lows with two-thirds of the decline due to rising interest costs and rest due to compression in gross margins. With likely fall in interest rates and improving growth, both factors will be addressed. Corporate balance sheets

are healing, albeit slowly, as evident in improving credit ratings.

Another issue with Indian equities is the elevated ownership of the Indian market by foreign investors and their near-universal optimism about it. This lends itself to volatility in equities linked to global market conditions. However, what we see over the coming months and quarters is a big shift in the attitude of domestic households towards equities. Consequent to better trailing returns, real interest rates and demographics, there is a structural case for domestic savings in equities.

Equity supply is likely to be materially higher in the second half of 2015, and, if such supply is bunched up, it will produce greater volatility. Thus, even as we stay constructive on equities with a three- to five-year horizon, we see higher variability in returns. The other aspect of the market that causes greater volatility is middling valuations. Valuations lie at a level which do not provide much insight into forward returns. Even as the market looks fair or better than fair relative to long bonds and emerging markets, an upturn in the earnings cycle and falling rates will likely support valuations. If we are right about earnings, then the market looks very attractive on a two-year basis. In part, the market is pricing in some of the recovery in earnings, but not all of it.

The market prefers quality (high ROE and free cash flow generators) and growth stocks (high revenue and EPS growth) over value (low PE, low PB, high dividend yield) and junk (high beta, high financial leverage), underscoring a nascent bull market. Full-blown bull markets usually disregard fundamentals, but the current bull



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market is acutely focused on fundamentals. These preferences make a lot of sense to long-term investors buying good businesses at reasonable valuations. However, later this year, stocks of companies with financial and operating leverage may be back in vogue as growth data starts turning around.

No good story, however, comes without risks. A delay in recap of SOE banks, which are impaired by high levels of stressed assets and are unlikely to generate credit growth in the early stages of the next cycle, could be a risk. The possible negative feedback from global factors, including deflation risks, higher US rates and poor Chinese growth, will be the other. There could also be a delay in RBI cutting interest rates and the rupee's overvaluation. This could hurt growth and derail prospects of an earnings recovery.

From a portfolio perspective, choices depend on an investor's risk appetite and time frame. Those with a 12-18-month time horizon should

prefer rate-sensitive sectors such as private banks, industrials and consumer discretionary, and technology stocks, as a hedge to the domestic story. While investors with a longer time horizon could also use the same sectors, their strategy could be fine-tuned to look at owning good businesses with heavy moats around them at reasonable valuations. We endure an allergy to high beta, which performs only in short cycles but underperforms over long-term horizons. Retail investors, who do not have expertise in equity investments, are best placed to systematically invest in diversified equity funds without paying too much attention to the market levels.

In summary, we continue to like Indian equities with a three- to five-year view, and believe the equity market will likely to be more volatile in the months ahead. However, now that the fundamentals of the market are in good shape, equities could well be the best-performing asset class in India in 2015/16. ♦

HIGH POINT

GOVERNMENT'S ROLE

The Central government is helping India's cause after inheriting major cyclical issues - high inflation and a plethora of stalled infrastructure projects. Both issues are being addressed by the Centre.

Inflation is now nearly half its recent highs and the completion rate of projects has registered a V-shaped recovery in recent times. Several other reform initiatives have also been launched by the government, including those in taxation, infrastructure, fiscal consolidation and ease of doing business in India. Despite widespread scepticism, the government has also made some progress in making new laws and implementing them.

All Set for an Encore

Dhawal Dalal

The year 2014 may be remembered as one of the best years for Indian bonds. As global growth stumbled, commodity prices, especially that of crude oil, eased by over 50 per cent. These manifested in disinflationary trends globally.

However, the Indian economy saw a dramatic improvement in macroeconomic indicators due to lower oil prices and favourable monetary and fiscal policies. While CPI inflation eased from high double-digit figures in 2013 to a low of 4.5 to five per cent, the current account deficit (CAD) narrowed to around 1.5 per cent of GDP from four to five per cent in 2013.

In response to these macro-variables and a decisive outcome in the 2014 national elections, the benchmark 10-year government bond yield declined by around 100 basis points (bps) in the second half of 2014 to around 7.80 per cent. Amid falling commodity prices, improving CAD, healthy macroeconomic backdrop and strong FII inflows, the RBI began its monetary easing cycle in January 2015 by reducing the repo rate by 25 bps. In March, it cut the rate by another 25 bps.

The bond market sentiment will remain

bullish in 2015/16 as the RBI is expected to announce two more rate cuts—likely by June and the fourth quarter. We expect CPI inflation to remain benign and average around five to 5.5 per cent. But investors should moderate their return expectations.

Global growth prospects are still anaemic and disinflationary conditions are getting pervasive. Although the US Fed has prepared the market for a possible rate hike later this year, its timing and pace remain uncertain. Other major central banks are still in an easing mode due to weak economic growth, despite a stronger dollar putting pressure on many currencies.

The European Central Bank and the Bank of Japan, in particular, are still delivering monetary stimulus to pump prime their economies. The effects of their actions are clearly visible through higher systemic liquidity and ultra-low bond yields in many European economies and in Japan. Nearly 24 central banks have cut their benchmark rates since the start of this year to March 12.

India is one of the few countries where both economic growth as well as nominal bond yields are still relatively attractive. More importantly, the rupee has remained relatively stable when compared to its Asian peers. These

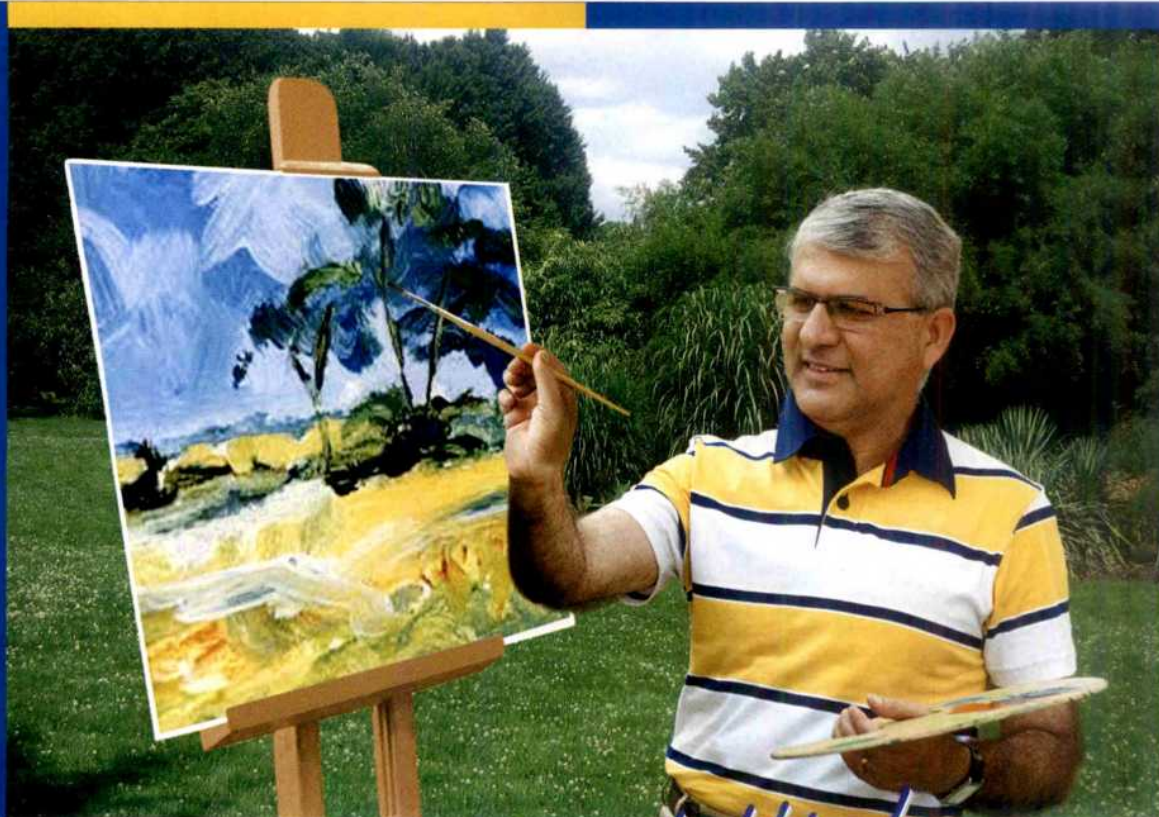
factors have resulted in huge investor appetite for Indian bonds. FII inflows into the bond market in 2014 stood around \$27 billion; they have poured in around \$7 billion year to date in 2015.

Despite investor sentiment improving post elections, credit growth remains sluggish and below its long-term average. The recent deflationary trend in WPI suggests a slack in the manufacturing sector. Companies with relatively higher leverage have little appetite for further borrowing. On the other hand, with inflation easing and higher real rates, deposit growth is likely to outpace credit growth. All these augur well for bonds as their demand from banks, insurance companies and foreign investors will likely remain robust in 2015.

We expect the government bond yield curve to steepen gradually from its current inverted shape. An upward sloping yield curve is an indicator of high growth. A gradual rise in systemic liquidity and rate cuts will likely result in higher decline in short- and medium-term bond yields as compared to long-term yields (above 15 years). The steepening of the yield curve will benefit bonds with five- to 10-year maturity as they are likely to outperform bonds with higher maturities (above 15 years) on a risk-adjusted basis. ♦



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Invest for Portfolio Stability

Lakshmi Iyer

Gold has been a natural global currency for a long time. Its scarcity, widespread acceptability and high demand make it a highly valued metal. Given the historical and current pervasiveness of gold as an asset, it continues to be seen as a store of value, and to a certain extent, as a last resort of exchange. Not surprising, then, that gold can also be "money by other means". Therefore, as is the case with cash, demand for gold tends to rise in adverse economic conditions, market volatility, rising inflation, weakening global currencies, or general socio-political instability. Thus, while "cash is king, gold is the crown on the king's head".

In the near term, however, the Gulf coalition's bombing in Yemen has led to a rise in the gold price. Moreover, while the US Federal Reserve is on the path of rate tightening, it has transitioned from making the policy action from being time-oriented to data-oriented. The market sees this as a reflection of continued benign stance in the US central bank's position. For that reason as well, the gold prices saw a marginal surge.

From the long-term standpoint, gold prices have remained largely muted for around a year now.

The resurgence in the US economy and the expected rise in the country's interest rates would increase the clamour for dollar denominated assets. This reduces the susceptibility and risk perception, thus reducing the risk premium on gold.

Domestically, other than a possible deterioration in the rupee value, the price of gold may not rally. Moreover, the Reserve Bank of India's push to provide real interest rates by inflation-indexed bonds may also reduce the attractiveness of gold in the eyes of the investor. Additionally, the high returns by equities and debt assets over the last year, too, may take the investors away from the yellow metal. To add to that, the high price of gold and the subdued performance of the asset over the last two years have reduced the investment appetite amongst traditional investors. Besides, the financial sector is incentivising the monetisation of the retail gold holdings. This is also adding to the downward pressure on the metal.

An investor is advised to allocate a proportion of his/her investments into gold. This is because gold has a largely inverse relationship with other financial assets. The "low-to-almost-non-existent" correlation with other asset classes like equities and debt provides gold with a characteristic of an

anchor even when the other two assets may not be performing well. Thus, gold helps stabilise the overall portfolio and provides a possibility of growth even in a recessionary environment. This ability of gold to help counter the business cycle continues to provide investment opportunity. For example, while gold has underperformed the equities and debt over the one- to three-year time frame, it has given competitive returns when debt and equity assets were volatile.

To sum things up, monetary expansion, geopolitical issues, institutional demand and prudent allocation requirements continue to ask for a marginal investment in gold. This investment logic is not driven by growth expectation, but rather by the need for portfolio stability.

However, from a retail investor point of view, the (physical) investment in gold has its inconveniences. Buying (physical) gold involves the risk of theft, misplacement and potential mispricing. Additionally, when an investor needs to sell his/her (physical) gold, he/she has to go through the inconvenient route of valuation, bargaining, transaction and delivery. Therefore, to circumscribe that, investors can choose gold exchange-traded fund as a medium to invest in the yellow metal. ♦



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Realty Check Beyond Metros

Sunil Rohokale

Real estate is a widely held asset class among Indians. It is a good investment option due to its tangible nature and steady returns. The rising population and growth of cities will provide continuous demand for self-owned homes as well as investment opportunities in both metros as well as in non-metros. However, the scale, growth rate and risk-adjusted returns will differ between metros and non-metros. Smart cities are also reviving the possibility of looking beyond metros for investment in real estate. But has there been a change in the micro-drivers recently that would drive investments in non-metros?

Real estate investment is driven by job creation, infrastructure and economic growth. The past decade has seen the services sector accounting for 57 per cent of gross domestic product. It grew at a compound annual growth rate of 8.5 per cent between 2000/01 and 2013/14. This led to higher job growth and higher income profile. Growth of the real estate sector also depends on development of infrastructure such as road and rail networks, and metro connectivity. Social infrastructure, such as schools, colleges, hospital-ity, retail centres and health-care facilities, also drives growth of the residential real estate segment.

The expectations of home buyers also depend on the development of a city. In metros, those working in the services sectors, such as IT/ITeS, financial services, banking, telecom and insurance sectors, are exposed to global standards in housing. They expect advanced features, such as energy-efficient or green homes, and are

ready to pay a premium for them. For non-metros the focus of the home buyer is on getting value for money.

The pace of urbanisation will gather pace as the government unveils its 'smart cities' initiative. Most smart cities will be built around existing Tier-II cities that are manufacturing hubs or state capitals. Administrative capabilities, and political and social environments in such cities will have a strong impact on the growth of smart cities. As the new cities are expected to integrate commercial and residential sectors, it will improve the quality of life and might become an alternative to metros.

However, for non-metros, the size and scale of real estate development will be on a smaller scale. The preference for smaller independent houses will lead to more horizontal spread than vertical high-rise structures. In such a scenario, investments in land and plot developments are attractive and provide good returns. However, one has to ensure accurate land titles and physical monitoring of the property to avoid encroachment.

The growth of non-metros would primarily depend on job creation. The commercial office space is still at a nascent stage and, therefore, rental yields are very low to attract investments. High-street retail in central business districts of non-metros offers investment opportunities because of its business potential and availability of limited space. However, the size of the opportunity is limited due to inadequate infrastructure that leads to high values of existing properties.

Investment opportunities in non-metros will be driven by their planning and execution capabilities, regulatory



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environments and economic incentives. The growth of these cities is expected to happen over medium- to long-term because developers have smaller scale, lack of professional organisation and limited capability to adopt new technology. This coupled with higher cost of capital and limited capital may further hinder growth of real estate in non-metros.

In metros, real estate development provides options for diversification. It offers choice of size, quality and brand. The impact of the overall economic growth benefits metros due to established infrastructure and existing job markets. Metros provide better options for both investments and exits because the ecology is developed and developers are more professionally organised with technical and financial capabilities.

In metros, income-yielding Grade-A commercial properties have seen rental yields bottoming out and current capital values provide counter-cyclical opportunities for investment. Luxury residen-

tial real estate with distressed value looks good as a self-owned home than an investment opportunity. Mid-income and upwardly-mobile mid-income-focused homes are mostly in demand and sales velocity exist in this segment. But incentives schemes need to be evaluated to ensure best-value deals.

Developers are saddled with high debt on their balance sheets and slowing sales. This has also affected the pace of project execution and, therefore, offers value-buying opportunities. At the same time, improving economic growth could result into interest rate reductions for the home buyer. Rising income and job growth could result in pick up in absorption. This provided value-investors and end-users to lock in their investments. Similarly in commercial real estate Grade-A property provides opportunity for investment. This window of opportunity is expected to be available in the current year as conditions favourable for real estate become visible. ♦

BOOM & BUST

The Indian Story

Growth of real estate in the country gained pace between 2003 and 2008 when the Indian economy was growing at around eight per cent. Many real estate developers and investors ventured into non-metros as growth opportunities seemed attractive in these Tier-I and Tier-II cities in the initial phase. Many metro-based developers tried to expand to non-metros, such as Pune, Jaipur, Mohali, Indore, Nagpur, Kochi and Coimbatore, among others. However, following the global financial crisis, India's growth slowed down considerably, and execution of both residential and commercial projects, demand for them and exits from such projects proved to be a major challenge.



Smart Cities, Smart Investors

Sanjay Dutt

Urbanisation goes hand in hand with the economic development of any region. Considering the important role that urban centres play and taking cognizance of the rapid urbanisation of the country, the Central government has announced the development of 100 smart cities (both greenfield and brown-field) across India. In addition, the government proposes to develop 12 greenfield smart cities along the 12 major ports of India. These smart cities aim at forming the right ecosystem for the creation of myriad economic opportunities in a sustainable manner while improving the quality of life.

Developing innovative and viable mechanisms to secure funds for developing smart cities is essential. Strategies to engage multiple stakeholders will be necessary. Finally, smart cities require technology advancements that can support the initiative.

The concept of smart cities seems to offer multiple avenues for investment. Considering the holistic approach that is expected to be adopted in their planning and development, early investors in these projects can look forward to healthy gains in the medium to long term. However, land prices in and around the locations of the proposed project (particularly in case of greenfield locations) would witness a surge. Similarly, in existing cities (proposed to be re-invented as smart cities) investment in locations along planned transportation proposals such as the metro, and peripheral areas (benefitting from physical and technological connectivity) could prove beneficial.

Smart cities would be designed to provide quality services and experience to their residents. Indeed, renewable energy, efficient energy systems, water recycling and purification systems, sewerage and solid waste management systems, smart building systems such as smart meters, etc., would be adopted across these cities. As a result, industries/companies associated with providing such technologies/products can expect an increase in order bookings thereby making them a good investment option as well.

While the smart city concept has been in existence for a short time and examples of the same can be seen across the globe, its interpretation and implementation have been very subjective. Various city corporations have assessed and prioritised sectors/services that needed attention and incorporation into their grid and have acted accordingly. Some prime examples of these include Seoul in South Korea, Amsterdam in the Netherlands, and Rio de Janeiro in Brazil. These cities have focused on incorporating the "smart concept" while introducing more accessible and transparent governance systems.

In India, the government decision to develop so many smart cities has focused attention on such projects. Not only are existing cities competing with each other to be one of the chosen 100, but developers, too, are incorporating components into their projects to make them "smart". Further, a number of large-scale regional projects such as the Delhi Mumbai Industrial Corridor (DMIC) and Chennai Bangalore Industrial Corridor (CBIC) would encompass many new urban areas and towns and are very likely to announce

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smart cities as a part of their development plans.

The development of a smart city presents a huge opportunity, particularly from the real estate perspective. The very nature of these smart cities – the provision of information and communications technology services coupled with social facilities – would make them very attractive, in particular to the services sector. Development of technologically superior work spaces, which offer services such as smart work stations, very high speed Internet, etc., at competitive rates, is sure to entice organisations to shift focus to such newer locations. These could also include IT SEZs, proving to be attractive destinations for IT companies.

Smart cities would also see the development of integrated industrial clusters, especially in locations which have a strong industrial presence. These smart industrial parks would be state of the art with steady power supply. They could offer multiple options

such as energy-efficient ready built space (standard design factories), multiuse built-up options as well as industrial sheds and plots. Further, these facilities along with office space options could prove beneficial to manufacturing entities as well.

Necessary social amenities such as educational and health care institutions would also necessitate heavy consideration and investments. The diverse nature of Indian cities makes it difficult to adopt a single definition of a smart city. Many cities in India lack collaboration between the citizens and the civic authorities. A smart governance system which connects these two sides would enable the city to offer better services to its citizens – it would in turn encourage them to become more active in the operational aspects of the city. Connecting these two sides to the business aspect would add value to the system and result in a continuous exchange platform creating the right ecosystem for further economic growth. ♦

ALL ABOUT SMART CITIES

Smart cities can be broadly classified into three types: new cities, existing cities made smart and purpose-driven cities. New cities integrate information and communications technology in all aspects to attract citizens and businesses by providing quality services. Retrofitting existing cities into smart cities is a step-by-step intervention to integrate new processes into older systems to create a smart city. Purpose-driven cities could be industry-centric, built around science towns or other core activities. The scale of each of these cities could greatly vary. Overall, smart cities promise to provide a quality of life that can support future generations sustainably.



Budget for Tax Breaks

Lovaii Navlakhhi

In the run-up to the Budget, people expected the tax exemption limit of ₹1.5 lakh under Section 80C to be increased and the creation of a separate section for exemptions for equity-linked savings schemes (ELSS), or one that would cater to the retirement funds being launched by mutual funds. In short, there were expectations of a million little things that would help save tax and increase disposable incomes.

However, the government decided to take an unexpected route – it tried to provide an impetus to the otherwise neglected National Pension System (NPS). The NPS was launched in 2004, with the intention of providing some form of social security in the form of a defined contribution-based pension system.

The advantage of the NPS over the Employee Provident Fund (EPF) is that the investor can choose where to invest his money. There are options of equity exposure unlike an EPF which is entirely debt-oriented and the investments are exempted from tax, too (up to ₹1.5 lakh). However, if the employer has opted to contribute to this scheme, an additional ₹50,000 is also deductible under Section 80CCD(2). The EPF has an EEE (exempt-exempt-exempt) status and hence the maturity amount is tax free. However, under the NPS the maturity amount is taxable and so are the annuities that will be paid therefrom. So, this makes the NPS a much lesser attractive option on the tax front. However, people remain divided in their opinion of the taxation benefits under NPS. More clarity is awaited on this and hopefully, the government will take

cognizance of this and introduce changes that would make the NPS more attractive.

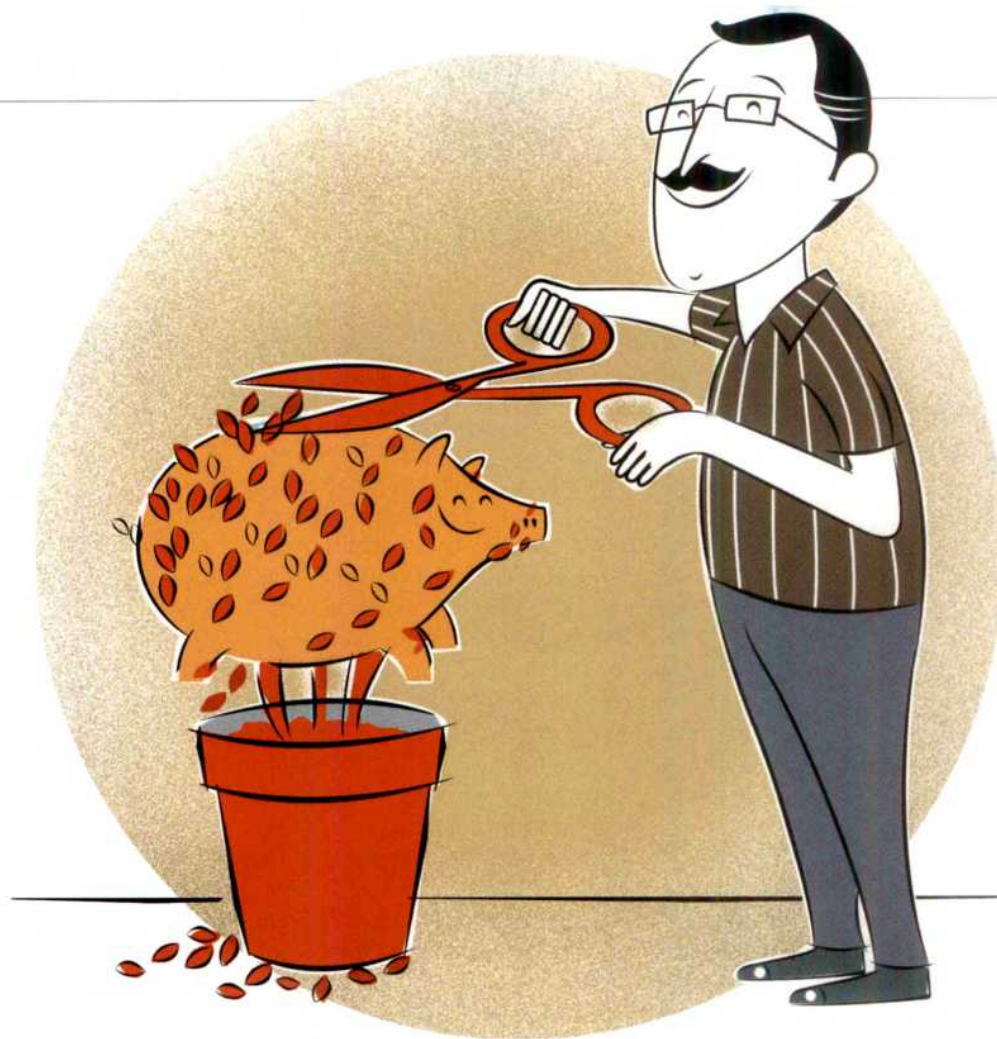
The other big positive in the Budget is the enhanced limit on deduction of health insurance premium – from ₹15,000 to ₹25,000. For senior citizens, this limit has been increased from ₹20,000 to ₹30,000. We have seen health care costs shoot up in the recent past with access to better facilities and the budget clearly resonates this fact. For example, if you are 30 years old, treatment of an illness which costs ₹3 lakh today will cost over ₹50 lakh thirty years later if inflation is at 10 per cent per annum. Do think about this when you decide how much health insurance you need? You may be surprised to learn that it does not cost an arm and a leg (a quick calculation for two adults aged 30 years with a child shows that the annual premium will be around ₹25,000).

Earlier, limits were lower and hence the deduction seemed fine. By increasing the deductible limit, the government is also nudging the individual to take better/higher health insurance and thereby protect himself/family with a more realistic figure. Senior citizens above the age of 80 years not covered by health insurance will also be allowed deduction of ₹30,000 for medical expenses.

An interesting addition was proposed in the Budget under Section 80C – an instrument that helps save for the girl child. Although it is not an additional option in this section, the *Sukanya Samridhi* scheme is a welcome option. This is a scheme for the minor girl child with an EEE status and the investment, income from investment and the matu-



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rity amount are all tax exempt/tax free. The interest will be declared each year and compounded annually. One can withdraw funds for education/marriage or when she turns 21. The account will be opened in the name of the girl child. This seems like a good option for people who would like to invest a part of their savings in fixed interest instruments for their daughters (up to a maximum of two daughters). How much they should direct towards investing in this scheme is something that they decide after consulting their advisor.

Some of the provisions under Section 80C (a limit of ₹1.5 lakh under the below instruments) are still available: For instance:

- Contribution to the EPF account
- Principal repayment of home loan
- Investment in the Public Provident Fund (PPF) account
- Investment in ELSS
- Children's school fee
- Investment in a five-year fixed deposit in bank

You can also claim tax deductions under Section 80G, if you are donating money to a charity.

Overall, the Budget does encourage people to save more and invest the right way, maybe even take higher insurance so they can face any curve ball that life throws at them. But should we wait for the finance minister to give us reasons to make better investments?

I would recommend that you look at your financial goals first, your risk profile next and then determine what your asset allocation should be. Investments should be looked at after you are clear on all the points mentioned earlier. It is very easy to get lost in the noise of the market. Get your first three answers right and you have won more than half the battle. So, don't wait for the finance minister to give you reasons to make the right choice when it comes to your investment – take the initiative yourself. Invest according to your goals and risk appetite, not that of your friends or neighbours. ♦

NPS vs EPF

NPS

Eligible for tax deduction up to

₹1.5 lakh

and an additional ₹50,000 if the employer is investing for the individual

Taxable with an EET (exempt-exempt-taxed) status

Can invest in a combination of debt and equity

EPF

Eligible for deduction up to

₹1.5 lakh

Tax free with an EEE status

Invests in debt instruments



An Exceptional Product

Swapnil Pawar

Retirement planning is often under-addressed by individuals, especially professionals. This is evident from the over-reliance of most individuals on relatively moderate contributions towards provident funds and lack of suitable long-term products to address this need. The National Pension System (NPS), launched on January 1, 2004, aims to overcome these limitations by offering higher returns and tax benefits.

NPS subscribers get a unique Permanent Retirement Account Number that they can use anywhere in India. It provides access to two personal accounts: One, a tier-I savings account meant for retirement where subscribers must deposit ₹6,000 a year and from which withdrawals cannot be made. Two, a tier-II account, which can be opened only when a subscriber has a tier-I account, and which allows withdrawals any time but does not offer any tax benefit.

NPS subscribers would get an opportunity to invest in government securities, equities or corporate debt as opposed to the Employees' Provident Fund (EPF), which invests only in safe but low-yielding government securities. The equity part of

the allocation in NPS cannot exceed 50 per cent of the corpus. The equity exposure is decided on the basis of the investor's age. The allocation to equities is reduced every year by two per cent after the investor turns 35 till it becomes 10 per cent. The rebalancing can be done only once a year. Individuals can switch from one fund manager to another and from one investment to another. Returns in NPS are not guaranteed unlike returns from EPF and PPF. However, in general, over the time intervals implicit in retirement planning, the expected returns of the portfolio are well in line with the required returns for building a retirement nest-egg.

Finance Minister Arun Jaitley has made NPS more attractive in the 2015/16 Budget by allowing a deduction of ₹50,000 under Section 80CCD (1B) over and above the existing limit of ₹1,50,000 available under Section 80C of the Income Tax Act.

NPS is one of the most inexpensive retirement products in the world. In comparison, a typical mutual fund is costlier owing to its higher expense ratio. Besides the fund management cost, there are some additional but small fixed costs for every transaction in the NPS account. NPS ensures that an individual is assured an annuity income in old age with the use of the restrictions it

puts on withdrawals. If the withdrawal is done before the age of 60, it is mandatory for the individual to invest 80 per cent of the proceeds in an annuity plan. Even if the withdrawal is made after 60 years of age, 40 per cent of the proceeds have to be invested in an annuity plan whose resulting pension is taxed like income from any other pension plan.

Leaving aside the 40 per cent mandatory investment into annuity plans after 60 years of age, the remaining amount is taxable. In comparison, all other retirement products such as EPF and PPF are EEE (Exempt, Exempt, Exempt) in their tax treatment. NPS is EET (Exempt, Exempt, Taxed). On retirement, many investors would have a corpus running into lakhs of rupees and so they are likely to fall into the 30 per cent tax bracket. This has been one of the main reasons behind individuals and their advisors staying skeptical about NPS.

Tax treatment at exit aside, NPS is an exceptional product for retirement planning since it is low on costs and has tax benefits at present. It is also one of the most investor-friendly investment products in India. As is true of all retirement products, it is never too late to start saving for your retirement right away since it gives the money more time to grow. ♦



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How to Build a Nest Egg at 40

By Amitabh Chaudhry

According to statistics released by the Union Ministry of Health and Family Welfare, life expectancy in India has gone up by five years, from 62.3 years for males and 63.9 years for females in 2001-2005, to 67.3 years and 69.6 years, respectively for men and women, in 2011-2015. While it means that people will start enjoying longer lives, it also implies that there will be a significant increase in the number of post-retirement years that a person lives. In order to ensure one does not run out of cash in his or her "golden" years, financial planning for one's retirement needs to start early.

Most often, the very first question asked by individuals on retirement planning is: "When should I start saving for retirement?" The answer is simple: As soon as you can. Ideally, the sooner you begin saving for your post-retirement life, the more time your money will get to grow. However, most individuals, especially the salaried class, realise the importance of saving for retirement only when they approach their late 40s – at a juncture when they might not have enough time left for their money to grow.

Therefore, if you have just turned 40 and do not yet have a set plan for your retirement needs in place, it is absolutely imperative for you to start saving for your golden years and plan your finances, going forward. But inculcating a saving habit at that age is easier said than done. With a host of expenses such as mortgage payments and the children's ever-increasing

tuition fees, it gets more and more tough to save. But it's certainly not impossible. Proper planning and commitment to the saving habit can still make a huge difference. Let us see how you can achieve your desired nest egg starting at the age of 40.

Financial planning for retirement will not be complete unless the following factors are considered:

■ **Time horizon available for investing:** The most basic parameter to consider will be the number of years available to the individual till he or she stops having a regular income:

■ **Required income:** The individual needs to determine the amount of money he would require to ensure that he does not have to compromise on the quality of life that he or she wishes to have after retirement. In order to do this over a longer time period, one has to factor in rising inflation to have an accurate estimate of required earnings;

■ **The expected rate of return:** The expected rate of return from one's investments is also a pivotal parameter in planning for one's retirement income. An unrealistic rate can mean that one's savings will get depleted much earlier than it was planned. The allocation of fund should also be kept in mind while assuming an investment return rate;

■ **Appetite for risk:** While planning one's retirement, people normally play it safe with a higher share of investments in government securities which offer low risk and low returns. But depending on one's appetite for risk, one can allocate his or her fund. Diversification, as a recent study suggests, accounts for nearly 90 per cent

RACHIT GOSWAMI



The author is Managing Director & CEO, HDFC Life



RAJ VERMA

of the performance of a portfolio; and

- **Legacy planning:** Finally, one should pass on one's legacy to one's heirs. One should have an estate plan in place to ensure his legacy is passed on according to his wishes.

It is of little surprise that insurance as an investment option takes care of most of these factors, if not all. In addition to the investment needs, insurance plans also take care of one's need for life cover. To start off, one has to decide the amount of money required for life after retirement and plan his maturity, or vesting, benefit accordingly. Depending on one's risk appetite, an individual can opt for a unit-linked insurance plan (ULIP) or traditional insurance plans, which invest mostly in debt instruments. To add to that, insurance companies also offer annuity products that offer guaranteed income for a lifetime.

Keeping these points in mind, the

most important step for a 40-year-old man or woman, today, is to start investing as soon as possible. Postponing your retirement plans by small periods of time can have seriously detrimental effects on the amount of money you manage to save.

Let us consider the case of Mr Sanyal, 40, who has invested in, say, HDFC Life Personal Pension Plus Plan, a traditional participating plan (see table). For Sanyal, deferring his planning by just five years has cost him around ₹15 lakh on his vesting benefit, a 40 per cent decrease in the lifetime annuity he would have received when he retires.

Clearly, postponing the start of retirement planning is a bad idea. If you are in your 40s with no defined retirement plan, it's time to sit down and chalk out the road ahead to ensure a stress-free retirement and a prosperous time in your golden years. ♦

If Mr Sanyal starts saving ₹1 lakh every year for his retirement (60 years)

AT 40 YEARS

₹41.23 lakh

in 20 years
(@8% interest rate)

ANNUITY: **₹3.5 lakh**
per year

AT 45 YEARS

₹24.65 lakh

in 15 years
(@8% interest rate)

ANNUITY: **₹2.09 lakh**
per year



Own a Piece of the Global Pie

Sandeep Shanbhag

Apple, Google, Facebook, Microsoft, Coca-Cola are globally recognised brands. And all of us routinely use their products and services. But did you know that you can participate in the fortunes of these companies by owning their shares in your portfolio? As per Indian law, you can be a shareholder in these global blue-chips. Or if financial assets are really not your thing, then how about buying some real estate – not in India – but a spanking new condominium in New Jersey, perhaps, or a villa in Dubai?

Indian law allows its residents, including minors, to freely invest/remit up to \$125,000 per financial year abroad to buy shares, bonds or any other asset including property, without taking prior approval of any authority. This is under the facilities provided by what is known as the Liberalised Remittance Scheme (LRS) of the RBI. One can also open foreign currency accounts with banks outside India to carry out transactions permitted under the scheme.

Pretty much any legal asset(s) – listed/unlisted shares, ESOPs, units of mutual funds, venture funds, unrated debt securities, promissory notes, paintings and works of arts – can be bought under LRS. Even a loan abroad taken by a resident Indian when he was an NRI could be repaid under the LRS. Real estate can also be purchased either outright or in installments. Resident investors may also set up joint ventures or wholly owned subsidiaries outside India for business activities. This facility is in addition to the funds that are already available for purposes such as private or business travel, studies, medical treatment, etc. However, remit-

tances for gifts and donations abroad cannot be made separately and are included under the LRS limit.

A number of activities, however, are strictly prohibited. These include remittance for purchase of lottery tickets, non-delivery based transactions, i.e., margin calls to overseas exchanges, and trading in foreign exchange abroad. Remittances to Bhutan, Nepal, Mauritius and Pakistan or to countries identified by the Financial Action Task Force as “non-cooperative countries and territories” are also not allowed, and so are remittances that directly or indirectly fund terrorism activities.

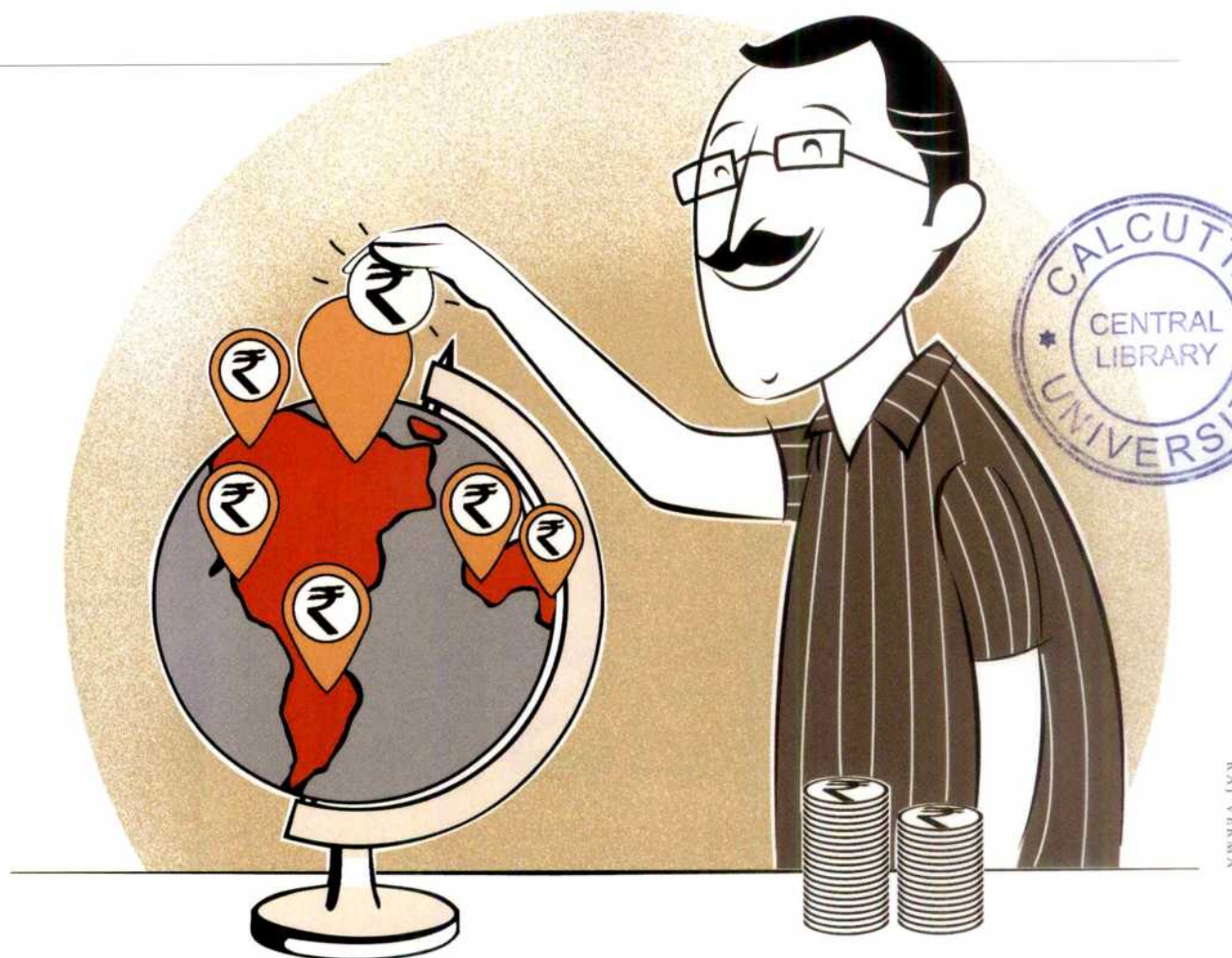
Resident individual investors can retain and reinvest the income earned on investments made under the LRS. So, it is not mandatory to repatriate back to India the funds generated out of the overseas investments. Also, the limit is per person per year and it is legally permissible to consolidate the remittances under LRS in respect of all family members – of course, subject to the individual members complying with the terms and conditions of the scheme.

It is mandatory to furnish one's PAN to make remittances under the scheme. There is no restriction on the frequency of investments. The individual will have to designate a bank branch through which all remittances will be made. The investor should have maintained the bank account for at least a year prior to the remittance. In case of new customers, the bank is expected to carry out due diligence on the opening, operation and maintenance of the accounts. Further, the bank will obtain bank statements for the previous year from the applicant to satisfy themselves regarding the source of funds. If such a

RACHIT GOSWAMI



The author is Director, Wonderland Investments, a tax and investment advisory firm



RAJ VERMA

bank statement is not available, copies of the latest income tax assessment order or tax returns filed by the applicant may be obtained.

While making the remittance, an investor must submit an application-cum-declaration in a specified format regarding the purpose of the remittance and declare that the funds belong to him and will not be used for the purposes prohibited under the scheme. Once a remittance is made for an amount up to \$125,000 during the year, no further remittances can be made even if the proceeds of the investments were to be brought back to India during the same year. Last, the remittances can be made in any freely convertible foreign currency equivalent to \$125,000 in a financial year.

High net-worth individuals seeking geographical as well as currency diversification are the ideal candidates for LRS. However, all the rules pertinent to investments in general apply – and the most important one being – “Know

what you buy, buy what you know”. This is by far the single biggest maxim that all investors, regardless of ticket size or geography, will do well to follow. Hence, just because overseas investments are a reality now, it doesn't mean that you should rush to avail of the same. These should fit into your risk, return, liquidity and tax-efficiency profile as well as integrated into your financial goals.

Prior to August 2013, the annual limit under LRS was \$200,000. However, in view of the then worsening current account deficit and currency volatility, the limit was scaled down to \$75,000. In June 2014, as the foreign exchange market was seen to be stabilising, the limit was stepped up to the current level. In its recent monetary policy statement, the RBI has declared that it has decided to double the limit to \$250,000. However, so far this has only been a statement – as on date the limit hasn't yet been formally increased. Watch this space for updates! ♦

IN TUNE WITH TIMES

CHANGES IN THE LRS
LIMIT OVER THE YEARS

\$200,000

The annual limit until
August 2013

\$75,000

The limit set in August 2013
in view of the worsening
current account deficit

\$125,000

The current annual limit,
increased in June 2014

\$250,000

The limit proposed by
the Reserve Bank of
India recently

Regional Invasion

With national broadcasters expanding their footprints in the regional markets, the going is getting tougher for local players. **By AJITA SHASHIDHAR**



V. Kalyanasundaram, the MD of Polimer TV, a Tamil general entertainment channel, is a worried man. The channel with 180-odd gross rating points (GRP) had never been able to match up to the might of market leader Sun TV with 1,000 GRP, but had created a niche for itself by airing dubbed Hindi content, including Sony's popular show *Bade Achhe Lagte Hain* and Colors' *Balika Vadhu*. The channel had also managed to get

its share of advertisers until national networks, such as Star India and Zee, decided to seek a slice of the regional language pie in Tamil Nadu.

Indeed, national networks are aggressively putting in place regional strategies to consolidate their positions. This is not surprising considering regional channels made up about 28.4 per cent of India's total TV advertising ad pie of ₹15,550 crore in 2014, according to the FICCI-KPMG





AJAY THAKURI

Media and Entertainment Report.

Star, for instance, acquired Maa TV for ₹2,500 crore in February this year to enter the Telugu market. The broadcaster already had regional channels in West Bengal, Karnataka, Maharashtra, Kerala and Tamil Nadu, where it has made further inroads. Star had acquired Vijay TV almost a decade ago but had less than 10 per cent market share for eight years. In the past couple of years, Star

Vijay has grabbed 25 per cent market share. Its GRP has shot up from 100 to 400 in one year, on the back of investments in original content. Its strategy to air cricket with live Tamil commentary also paid dividend.

Star India's sudden rise and the aggression from other national players has fragmented the ad pie in Tamil Nadu with bulk of the advertising going to Sun TV and, now, Star. Kalyanasundaram's biggest worry,

however, has not been so much about the ad share, but the cost of creating original content. "With competition heightening, we have started investing in original content and the cost is significantly higher. The per-episode cost of a dubbed show is ₹25,000, but an original show costs us anywhere between ₹75,000 and ₹1 lakh," he says. The escalating cost is obviously eating into its profits.

In December 2012, TV18 took

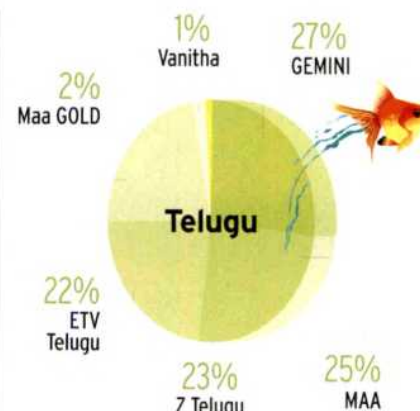
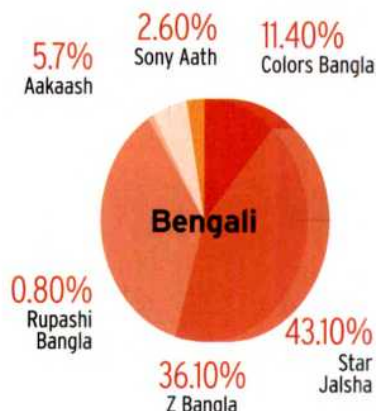
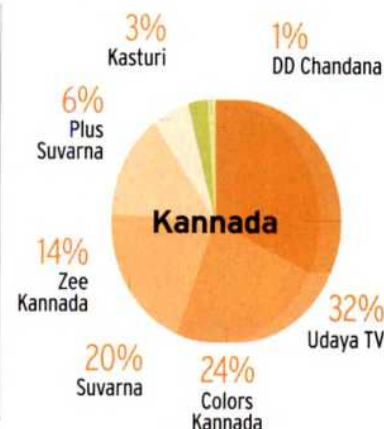
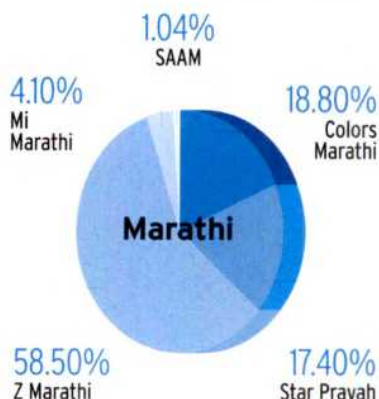
over the news and entertainment channels of ETV. Viacom 18, TV18's joint venture partner, which takes care of the programming of ETV's entertainment offerings, has now extended the Colors franchise by rechristening the ETV channels: ETV Marathi is now called Colors Marathi, while ETV Bangla is called Colors Bangla. Similarly, Zee has also established itself as a player in most regional markets, including Maharashtra, West Bengal, Tamil Nadu, Bihar and Odisha.

The national networks, by virtue of their deep pockets, are pumping in truckloads of money to create more aspirational content with high production values. Star, says COO, Sanjay Gupta, made its foray into the Bengal market with Star Jalsha to target a younger audience. "Before we came in there wasn't enough money being spent on content so the channels looked flat and boring. Production quality was poor and the stories were meant for 45-year-olds, whereas we did a show called *Ekhane Akash Neel*, which was a love story. It managed to attract a younger audience and, within months, viewership share of the Bangla entertainment genre increased by 50 per cent."

ETV Kannada, or Colors Kannada, along with other ETV channels, piggybacked on some of the marquee Colors fiction and non-fiction programmes, such as *Balika Vadhu* and *Bigg Boss*. In fact, the Kannada version of dance reality show *Jhalak Dikha Ja* became the top-rated show in the state. "In December 2013, ETV Kannada was at the fourth position in the Kannada general entertainment space (the market leader is Udaya TV), from there it has gone on to become a strong number two. In terms of absolute viewership, it has nearly doubled," says Sudhanshu Vats, CEO, Viacom18. Colors Marathi's viewership has also nearly doubled in the past two years. "The team, however, has struggled in Bangla, where it is a distant third, but from July 2013, we have managed to dou-

Bigger Slice For Bigger Players

National networks are expanding thick and fast



Source: TAM Media Research; *Relative channel share over the last three months

ble our share. We are still third, but the gap has reduced," adds Vats.

Better content and high production standards have also resulted in growth of the ad monetisation prospects by over 15-20 per cent in most markets. For instance, when Star acquired Asianet in 2008, it was a 600 GRP channel. Today, it commands over 1,000 GRPs and its ad rates have increased by 25 per cent. A 10-second ad spot on Asianet, which cost ₹6,500 last year, has increased to ₹10,500 now. Similarly, a 10-second spot on ZEE Marathi (a 400 GRP channel) has increased from ₹8,000 to ₹10,000 in the past year. "As they are pumping in more money on programming, content is much

better and GRPs have dramatically risen. Ad rates have also gone up," says Sarfaraz Ansari, Business Manager, DDB Mudra Max, the media planning arm of DDB Mudra.

While big networks are growing from strength to strength, smaller channels are increasingly feeling the heat. With the ad pie expanding, channels such as Mi Marathi in Maharashtra or Polimer TV and Raj TV in Tamil Nadu may not have lost out on ad revenues, but they have neither been able to expand their viewership base. The worry has been the over 50 per cent escalation in content cost to stay in the race. Mi Marathi, say media planners, is struggling with just 25 GRPs. Small chan-



nels have a two-pronged battle to fight, says Jai Lala, Head Trading and Partnerships, Group M. "Not only do they have to invest in original content, but also have to compete with big networks to get a slice of the ad pie. This is getting increasingly difficult for them," he says.

Survival of the Fittest

Regional presence enables national networks to offer a wider bouquet to advertisers and, thereby, provides them with higher bargaining power. Hindi viewership accounts for about 45 per cent of the total viewership pie in India, with Hindi GE channels and Hindi movies contributing 31.1 per cent and 13.5 per cent, respectively, while regional viewership is at 23.3 per cent. The

taken them to the next level.

Heightened competition has forced smaller channels, typically the number four or five in the pecking order, to either invest in superior content or die a natural death. Mahua TV in Bengal, for example, succumbed to the national onslaught. Rupashree Bangla, the GE offering of ABP Group, is also on the verge of closure.

The main issue, say industry experts, was not so much about the money power as it was about the inability to invest in the right kind of content and talent. "Getting good creative talent is a huge issue," says Kalynasundaram of Polimer TV, adding: "Most good talents either prefer working for films or larger networks, be it Sun or Star."



"There is a dearth of good talent in regional markets. Most of the good talent either prefers working for films or larger networks, be it Sun or Star."

P.V. KALYANASUNDARAM, MD, Polimer TV

fact that 41 per cent of Indians speak Hindi and 59 per cent speak other Indian languages has made big players turn aggressive. "There are more people who are consuming regional languages. So, the opportunities are there to stay," says Vats.

Most national networks have used the acquisition route to enter regional markets. Star's acquisition of Asianet and Maa, or TV18 buying ETV, were strategic moves that helped the big companies get a solid footing in the regional space because these channels already had a dominant presence in the markets they were operating in. The superior content strategy and marketing muscle of national networks have

In fact, Monica Nayar Patnaik, MD, Eastern Media, a media company in Odisha, says her company had been debating the launch of a GE channel for the past two years. Recently, it shelved its plans realising it will not be easy to compete with market leader OTV and national broadcasters. "We are now debating whether our offering should be a specialised one...maybe a music channel," says Patnaik.

On the other hand, the Malayala Manorama Group in Kerala, which launched its GE channel Mazhavil Manorama three years ago, is already at the second place in Kerala with 400 GRPs, but way behind market leader Asianet. P.R. Sathe-



DIRECTOR

INDIAN INSTITUTE OF MANAGEMENT (IIM)
ROHTAK, INDIA

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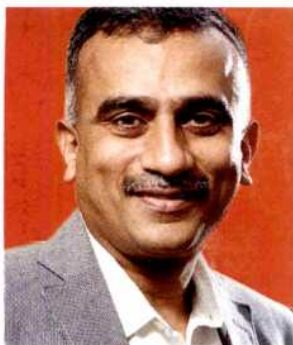
Selected candidates shall have a contractual tenure of appointment for five years or until attaining the age of superannuation of 65 years, whichever is earlier.

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(Management), Room No. 220, C-Wing, Department of Higher Education, MHRD, Shashtri Bhavan, New Delhi - 110001 India and e-mail to shail.ca09@gmail.com

The applicants should arrange to send the Vigilance Clearance / Background Clearance directly from their present organisation to the address mentioned above.

**Last date to submit the application
May 15, 2015**



"The pride in regional languages is not coming down even with the younger generation. Regional languages are there to stay."

SUDHANSHU VATS, CEO, Viacom 18

"Before we came in [with Star Jalsha in Bangla] there wasn't enough money being spent on content, so the channels looked flat and boring."

SANJAY GUPTA, COO, Star India



esh, Head of Sales and Marketing, Mazhavil Manorama, says the strategy from day one has been to push up the bar for content creation. "While Asianet invested more on household dramas, our strategy, so far, has been to give differentiated offerings such as political satires, sitcoms and high-quality reality shows, such as India's Voice, where we got in Shankar Mahadevan to host the show."

Satheesh claims its differentiated content has enabled the company to strike a chord with the younger audience. "The long tail of entertainment channels will definitely see an erosion if smaller channels don't invest in original content," he says.

Further Consolidation

India has over 800 channels, out of which half are regional channels. With national broadcasters making inroads into regional markets, smaller players might have to have a relook at their strategy or wither away. The other option is to sell their businesses to a bigger player. How-

ever, barring Multi Screen Media, all national broadcasters already have their regional bouquets in place. So, is there really any scope for smaller regional channels to find buyers?

Raja Lahiri, Partner at consultancy Grand Thornton, says acquisitions will not be easy. "Many regional channels have issues with low viewership, ratings and revenue growth drivers. From an M&A perspective, lot of work will have to be done by the acquirers to derive synergy benefits and generate revenue growth after acquisition," he says.

According to Jagat Dave, MD, Ambit Corporate Finance, if the market is large enough and growing, there will still be scope for smaller channels to get buyers. "The acquirer will evaluate the brand equity and economics of the channel in light of the extension of ad-sales, promotion and distribution muscle of the network." Despite having too many players, Tamil Nadu and Kerala are growing in terms of ad monetisation and viewership, and Dave feels

smaller channels in these markets could get buyers. "The market is still growing and, therefore, smaller players are surviving. When growth stabilises and the grab for market share starts, there will be consolidation in the sector," he explains.

Atul Phadnis, CEO of TV programming guide company, What's On India, agrees: "A regional acquisition is always determined by the size of the market. The way a Tamil Nadu or an Andhra market behave will be quite different from Bihar or Orissa." Therefore, if channels, such as Lakshya TV in Orissa, have shut down it is because there is no market for more channels. However, a broadcaster like Raj TV in Tamil Nadu may be able to attract buyers.

However, Tarun Katial, CEO, Reliance Broadcast, which launched Big Ganga in Jharkhand, finds the larger markets of Tamil Nadu, Andhra, Maharashtra and Bengal to be extremely crowded. "We realised that in most regional markets the intensity of competition is huge. Bihar and Jharkhand had its own socio-cultural identity, but there was no sustainable platform to fulfil the entertainment needs of that region." Big Magic, which competes with Zee Purvaiya and ETV in Bihar and Jharkhand, is already the market leader with 50 GRPs within a year-and-half of its launch.

Even if one goes by Dave's and Phadnis' argument that regional acquisitions are still likely, the fact remains that most states have a long tail of channels. Will all of them survive? The jury here is divided. While a considerable number of experts believe that they will fold up, the likes of Smita Jha, Leader (Media and Entertainment) PwC, expects the market to churn. "Nothing will fold up. They will try to find out new positionings and make themselves more relevant. In a country of 800 channels, less than 10 channels have closed down so far." ♦

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Digital Ubiquity



How Connections, Sensors, and Data Are Revolutionising Business.

By MARCO IANSITI
and KARIM R. LAKHANI

For more than a century General Electric made most of its revenue by selling industrial hardware and repair services. But in recent years GE was at increasing risk of losing many of its top customers to nontraditional competitors – IBM and SAP on the one hand, and big-data start-ups on the other. Those competitors aimed to shift the customer value proposition away from acquiring reliable industrial equipment to deriving new efficiencies and other benefits through advanced analytics and algorithms based on the data generated by that equipment. The trend threatened to turn GE into a commodity equipment provider.

In 2011, GE responded with a multibillion-dollar initiative focused on what it calls the industrial Internet. The company is adding digital sensors to its machines, connecting them to a common, cloud-based software platform, investing in modern software development capabilities, building advanced analytics capabilities, and embracing crowdsourced product development. All this is transforming the company's business model. Now revenue from its jet engines, for example, is tied not to a simple sales transaction but to performance improvements: less downtime and more miles flown over the course of a year. Such digitally enabled, outcomes-based approaches helped GE generate more than \$1.5 billion in

incremental income in 2013; the company expects that number to double in 2014 and again in 2015.

GE's industrial Internet is based on the newfound ubiquity of digital connectivity. Most information work is already digitised through the use of connected laptops and mobile devices. Now, with the growth of the "Internet of things," the pervasive deployment of digital sensors is extending digitisation and connectivity to previously analog tasks, processes, and machine and service operations. Moreover, virtually limitless computing power is available at very low cost through cloud computing. The combined impact of all this is that both established and start-up players in every industry are being forced to compete in new ways. (See *What Makes Digital Technology Transformational?*)

Digital ubiquity started with the transformation of software companies. For example, Microsoft and SAP, which used to make large profits by selling software licences, are investing heavily in infrastructure to support cloud software and analytics; switching from product to service revenue; and experimenting with outcomes-based business models in cases where revenue might be tied to the efficiencies delivered by an enterprise application. Joining them are newer players such as Salesforce, Workday, Google, and Amazon Web Services, whose cloud-native services are already transforming enterprise software. But the trend reaches well beyond software companies: The medical device maker Becton Dickinson is in-



vesting heavily in software and development capabilities that will incorporate increased connectivity, intelligence, and platform functionality in its diagnostics equipment. Companies in the investment management sector, such as Wealthfront and AltX, are assembling data platforms that optimise and automate the investing process. Even Domino's, the pizza company, is building digital capabilities, mobile technologies, and analytics to enhance innovation and meet consumer expectations regarding service, transparency, and speedy delivery.

Adapting to ubiquitous digital connectivity is now essential to competitiveness in most sectors of our economy. We have examined transformation across dozens of industries and companies – both traditional and born-digital. We have talked to hundreds of executives in our effort to understand how traditional modes of innovation and operational execution are changing. (Disclosure: We have consulted with or have interests in several of the companies mentioned in this article.) We have seen that digital transformation is no traditional disruption scenario: The paradigm is not displacement and replacement but connectivity and recombination. Transactions are being digitised, data is being generated and analysed in new ways, and previously discrete objects, people, and activities are being connected (see *An Explosion in Connected Devices*). Incumbents can use their existing assets, dramatically increase their value, and defend against (or partner with) entrants. Pacific Gas and Electric, for example, will be more valuable if it connects with Nest, the digital thermostat that Google recently bought for \$3.2 billion. (See *Why Nest Matters*.) And Uber makes money by bringing drivers together with customers – not by replacing them.

Rethinking Value Creation and Capture

A business model is defined by two things: how the or-

ganisation creates value for its customers (the customer value proposition) and how it captures that value (how it makes money). Digital transformation changes both.

Consider GE's wind farm deal with the global energy giant E.ON. In the past, as the demand for power increased, GE would try to sell more turbines and associated equipment to power-generation companies. In its partnership with E.ON, GE used E.ON's extensive operational data to run advanced analytics and simulations and come up with a different scenario: Instead of increasing capacity by adding more wind turbine hardware, E.ON could meet demand with a relatively modest purchase of equipment to connect all the turbines through software that allows for dynamic control and real-time analytics.

GE creates value by extracting useful data from the sensors on its turbines and other wind energy equipment and using that information to optimise equipment performance, utilisation, and maintenance. It captures that value by charging a percentage of the customer's incremental revenue from improved performance. So although GE sells less hardware, it has developed a mutually profitable long-term partnership.

GE's Transformation

When Jeffrey Immelt became GE's CEO, in 2001, he inherited a company that was efficient but facing intense competition and falling prices for its top-tier capital goods. Immelt accelerated the company's movement towards contract service agreements (CSAs), instituted under his predecessor, Jack Welch. CSAs guaranteed total operational management of an asset, including preventive maintenance and repairs. They generated reliable high-margin income for GE over the life of the equipment – often several decades. By 2005, CSAs accounted for more than 75 per cent of GE's revenue backlog and contributed the same

What Makes Digital Technology Transformational?

To understand why the Internet of things is transforming business models, it's helpful to understand three fundamental properties of digital technology: (1) Unlike analog signals, digital signals can be transmitted perfectly, without error. A Facebook webpage will look exactly the same when it's generated in Palo Alto as it does when it's shown to a consumer in Bangalore. (2) Moreover, digital signals can be replicated indefinitely – that same page can be shown to a billion Facebook users – without any degrada-

tion. (3) Once the investment in network infrastructure has been made, the page can be communicated to the incremental consumer at zero (or almost zero) marginal cost. And a digital task performed at zero marginal cost will immediately supersede any traditional analog task completed at significant marginal cost (which is why e-mail and social networks are killing "snail mail").

These properties (exact replication infinite times at zero marginal cost) improve the scalability of operations and make it easy to combine new and old

business processes and connect industries and communities to generate novel opportunities. Facebook can connect any brand to any user community without incremental expense. A sensor on a GE jet engine can transmit useful data predicting maintenance over long distances at zero incremental cost; this data can in turn be communicated to GE's maintenance organisation and third-party spare parts manufacturers. Thus these three fundamental properties drive the transformation enabled by ubiquitous digital technology.

proportion to industrial earnings.

"We have globalised the company while investing massive amounts in technology, products, and services," Immelt told an industry group in 2009. "We know we must change again." That change was the industrial Internet. GE's initiative proposes an open global network of machines, data, and people to generate a plethora of new business opportunities and outcomes-based business models. It focuses on providing data synthesis and analysis and designing real-time and predictive solutions to optimise the complex operations of its customers.

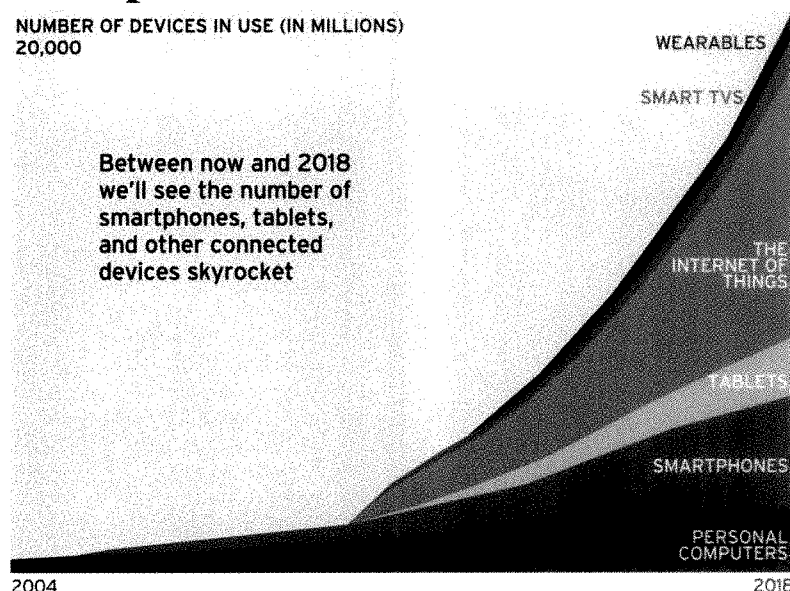
The industrial Internet is revolutionising value creation and capture for GE. The decision to build out the new system was more evolutionary. By 2011, along with sensors and microprocessors, GE had significant embedded software running power plants, jet engines, hospitals and medical systems, utility companies, oil rigs, rail, and other industrial infrastructure worldwide. Connecting the hundreds of thousands of GE devices to one another and arming them with increasingly sophisticated sensors seemed like a logical extension of the maintenance-and-operations-driven business model, and one that would extend GE's strategic advantages. "I have a great deal of confidence in our core hardware," Immelt says. "We have the most stuff. It's hard to replicate. We started from a real position of relative strength."

Building software capabilities. As the scale and scope of the opportunity became clear, Immelt and his team recognised that the company would have to build new capabilities. It would need a global centre to develop and support software applications uniformly across the businesses, and it would need new and innovative approaches to managing customer relationships – including how to sell and service the new offerings.

GE is a world-beater in efficiency, productivity, and innovation. But it had never been known for the agility, responsiveness, and strategic coherence of its software development process. Indeed, when Immelt launched GE Software, in November 2011, the company's IT efforts were scattered. Its various business units employed more than 12,000 software professionals, who helped generate several billion dollars in revenue. But no overarching strategy guided their technical choices and commercial offerings. Each business unit – even each product leader – made choices according to local conditions; the result was wildly uneven technical and commercial performance. "Every one of our products had a different underpinning

An Explosion in Connected Devices

NUMBER OF DEVICES IN USE (IN MILLIONS)
20,000



Source: BI Intelligence Estimates based on data from Gartner Research, IDC, Strategy Analytics, Machina Research, and others

platform, architecture, technology, and set of vendors," says William Ruh, whom Immelt brought in from Cisco to run the new operation. Ruh and other GE senior leaders set out to get a handle on the scope of the company's existing software operations globally; they found 136 products, of which only 17 were actually profitable. "It was taking us years to build the software, and years to get it out the door," Ruh says. "And customers' needs were changing too rapidly to keep up."

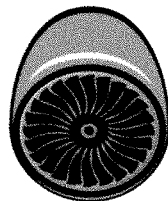
Developer talent was also a concern. "Our software engineers had experience in one of two ways," Ruh says. "They were either mechanical engineers or they were computer scientists. But most of them had experience with technologies that were last-generation. They were very reliant on outside vendors, sometimes for full development." Furthermore, GE's software specialists were spread across the global businesses and had no common language. Ruh started assembling his own team and insisted that its members all work together at GE Software headquarters, in San Ramon, California. "Co-location is everything," he says. "New things are easier to create a team around when they are all in one place." By January 2013, Ruh had hired 62 people; that June about 150 employees moved into the new offices. At the end of the year the team numbered 350, only two per cent of whom had transferred from other parts of the company. Ruh expects to have more than 1,000 software developers and data scientists working at the San Ramon facility by the end of 2014.

Ruh set out to create a software platform that would work across the entire enterprise. It would make developing new applications more efficient and allow for rapid cross-industry innovation. It would also enable independ-

ent developers to build applications on GE's platform. And Ruh insisted that GE own all the intellectual property his team built.

The team rolled out its first set of solutions under the Predictivity brand, running on Predix, GE's common software platform. Predix and Predictivity promise to dramatically streamline monitoring and maintenance for all GE's industrial technologies. Predix combines distributed computing and big-data analytics, asset management, machine-to-machine communication, security, and mobility. Predictivity will eventually connect all GE's machines to the cloud (no small feat, given that some business units, such as health care, have thousands of products, each with its own complex software needs and legacy systems), enabling them to talk to one another, learn from historical data, and provide predictive information to help eliminate unplanned downtime and otherwise improve efficiency.

Public Service Enterprise Group (PSEG), a New York and New Jersey-based utility, is using a Predictivity product to react to real-time changes in power demand, grid conditions, and fuel supply. In the few months that the asset-optimisation solution has been in place, PSEG has increased output by six per cent, reduced fuel burn by more than 1.5 per cent, and increased operational flexibility for its gas turbine fleet. St. Luke's Medical Centre, in Phoenix, uses another Predictivity solution to integrate bed assignments, departmental workflow, patient flow, transportation, and equipment management, reducing



GE'S INDUSTRIAL INTERNET

Jet Engines

BENEFITS

- Lower maintenance costs
- Lower workforce costs
- Fewer cancelled flights
- Better on-time performance
- Higher customer satisfaction

bed-turnaround times by 51 minutes – a critical factor in hospital capacity planning and patient satisfaction. And a railroad customer, Norfolk Southern, uses a Predictivity network-optimisation solution to move more freight faster and more intelligently, achieving a 10 per cent increase in the overall speed of trains, a 50 per cent reduction in losses due to “expired crews” (personnel who have to meet time-off requirements), and significant on-time performance improvements.

Getting business-unit buy-in for GE Software was often a challenge. The business units were accustomed to operating autonomously, and some were more legacy-laden than others. Ruh did not try to force anyone to comply. “I said, ‘We’re going to do this; you can be on the train or

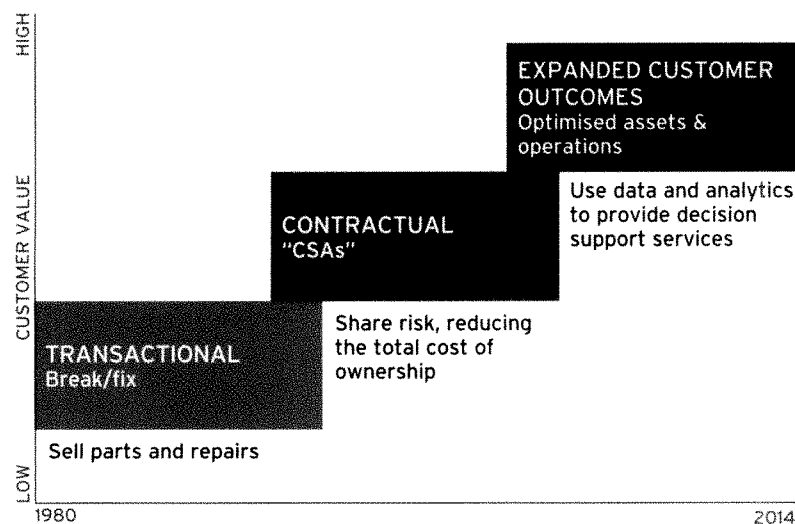
not,’” he recalls. “A number wanted to, so we developed them at a very fast pace and got them successful quickly. The performance gains and revenue enhancements were visible to other executives, who then asked their own businesses, ‘If you’re not doing this, why not?’ And there was no good answer.” Before long all the business units were working with the initiative.

It helped that Ruh's division was structured to encourage collaboration. Funded by the CEO's office, GE Software does not have its own P&L. “I don't compete with the businesses,” Ruh says. “I don't get confused by trying to build my business versus theirs. I'm tied to and care about their P&L because I'm aligned with the question ‘Did we have business impact?’”

While Ruh and his team pushed forward on the common platform, Immelt and Beth Comstock, GE's chief marketing officer, considered the new offerings' implications for the marketing and sales teams. From the outset some managers argued that selling analytics and other software offerings was beyond GE's scope, whereas others argued that licensing the offerings was a cleaner model and therefore preferable. The challenge is that “we're trying to sell them something they don't know they need,” as Comstock puts it. “And they can't see when it works.”

Learning to sell the new model. GE had to make a dramatic shift in approach. It had to abandon its traditional “box seller”

The Evolution of GE Service Models



Why Nest Matters

A year ago few Honeywell executives saw Google as a competitor. That changed in January 2014, when Google bought Nest, the digital thermostat and smoke detector company, for \$3.2 billion. The move is a clear indication that digital transformation and connection are reaching critical mass, spreading across even the most traditional industrial segments.

The Nest thermostat creates value by digitising the entire home-temperature-control process – from fuel purchase to temperature setting to powering the heating, ventilation, and air-conditioning system – and connecting it to Nest's cloud data services. The thermostat aggregates its data on real-time energy consumption and shares that data with utilities, which can improve their energy consumption forecasts and thus achieve greater efficiency. And Nest can push cost data back to customers ("Current demand is high, so the price you pay is going up. We will turn down your air conditioning for the next two hours"), reducing their energy bills.

How does Nest capture the value it creates? First, its retail

prices are double or triple those of conventional thermostats. Second, it can make money from electric utilities on the basis of outcomes: Google can aggregate data on energy-consumption patterns and offer the utilities a service in return for a percentage of their savings. Third, it can pass some of those savings back to consumers.

Thus Nest will not only play in the \$3 billion global thermostat industry; it will help shape the \$6 trillion energy sector. It can also jump into other sectors by opening up its digital cloud platform to devices and services from other providers. For example, the platform now connects with advanced Whirlpool laundry systems to schedule wash and dry cycles during nonpeak hours. It works with the wearable-technology company Jawbone to detect when someone has awakened and then dynamically adjust the home temperature. It can connect with home security ("Someone just walked by your thermostat; I thought no one was home") and consumer electronics ("Since you're now in the bedroom, do you really want to keep the TV on in the den?"). The potential for new applications and services is astonishing.



Nest will not only play in the \$3 billion global thermostat sector; it will help shape the \$6 trillion energy sector

mentality in favour of solution-based sales that focused not only on pain points but also on exactly how to enhance the customer's operating performance. "The transition we have to make with our customers is going from agreements that are break/fix to agreements that guarantee outcomes," Immelt says. "Those will happen customer by customer, and the outcome guarantees are going to cannibalise the break/fix."

GE is now rethinking and redeveloping its go-to-market and commercialisation strategies. To help evolve its sales organisation, Immelt brought in Kate Johnson as chief commercial officer, a new position within the marketing function. Johnson had deep experience in selling and servicing enterprise software at Red Hat and Oracle; she worked to create and expand GE's outcomes-based sales capabilities. She also oversaw a new commercial centre of excellence that crystallised how GE would increase service revenue and margin growth. "This change is not just about sales," Johnson says. "It's about product management, marketing, sales and commercial operations, delivery. It involves the whole life cycle, from invention to fulfilment. And that is the essence of how we're tackling the problem."

To be sure, GE still needs salespeople and account executives who have deep relationships with their clients. However, what they sell, how they sell, and to whom they sell is changing completely. The sales team now includes solution architects, who combine exhaustive industrial knowledge with advanced analytics to develop models for setting and achieving business outcomes. "Instead of a features list with pricing and discount caps," Johnson says, "we're shaping deals from the ground up that are based on the value derived by the customer. It's a completely different set of economics that is very disruptive in the industry."

Customer engagement has become far more complex. It requires

an approach to solution development that integrates technology, connectivity, and analytics products from GE with the client's proprietary financial and operational data. "For this kind of sale, we need much more data to truly understand our customers' business and financial situation, how they make money," Johnson says. "Our sales team now has to do a whole range of new spreadsheet calculations and modelling before we even approach a potential customer."

For example, the E.ON contract started off with GE's proposing two capital-expenditure deals and one operational-expenditure deal to improve energy performance on E.ON's wind farms. Structuring the three options required extensive familiarity with the client's balance sheet, financial strategies, and approach to the market. The GE sales team had to manage E.ON's procurement and accounting officers and also had to work closely with its technologists to address concerns about measuring performance. It developed a complete methodology, shared it through white papers, and piloted the technology on selected E.ON turbines. The deal itself required layers of agreement within the client, from purchasing to asset management to finance and operations. In the end, the operational-expenditure model won out. E.ON accepted the assessments and methodology and was pleased that very little capital had to be spent to capture gains.

Building out the ecosystem. Immelt, Ruh, and Comstock were aware that they could go only so far in developing offerings. They needed to strengthen the loose network of suppliers, distributors, and developers of related products and services that enable and enhance GE's offerings. It's an approach that technology companies such as Apple and Microsoft have benefitted from for years, as have Walmart and other highly tech-dependent businesses.

The challenge was especially tricky for GE. Each of GE's industry sectors was at a different stage of maturity, and each business unit had its own legacy software issues that constrained product innovation. "We have to face the limitations on the ecosystem," Immelt says. "We started from the idea of asset optimisation and no unplanned downtime, but in the end, the maximum customer value is going to be in the ecosystem. How open do we want this to be? How far are we willing to go?"

To build out its ecosystem, GE is experimenting with different types of partnerships. Joint ventures, for example, let a smaller concern run with a discrete idea, keeping it free of GE's internal pressures. Caradigm, a 50/50 joint venture formed by GE Healthcare and Microsoft in February 2012, developed software to enable health systems and payers to drive continuous improvement in care.

Taleris, a joint venture between GE Aviation and Accenture that developed software and analytics capabilities to manage airline operations, recently signed its first multibillion-dollar deal with Etihad Airways, of the United Arab Emirates, to predict maintenance issues and recommend preventive approaches.

GE is also relying more on crowdsourcing for innovation. The company has invested in Quirky, a consumer product innovation platform and manufacturer with more than 744,000 members, to propose, refine, select, fund, and build new products, and has offered its relationships with suppliers and other support for products as they launch. The investment helped get four products – a smartphone-enabled power strip, a physical dashboard that displays online information, a smart egg tray (which connects with your mobile device to tell you how many eggs you have and how fresh they are), and a multifunction sensor (motion/sound/light/temperature/humidity) for home use – onto the shelves at Home Depot and Best Buy before the 2013 holiday season. More recently, GE announced a smartphone-powered window air conditioner for the home market.

GE Aviation partnered with Alaska Airlines in November 2012 to present Flight Quest, making two months' worth of FlightStats data available on an open platform. Outsiders were challenged to come up with algorithms that could better predict flight arrival times, with a total of \$250,000 awarded to the top five entries. The winner, a doctor in Switzerland, developed an algorithm that predicted arrival times 40 per cent more accurately than the existing technology. More recently, Local Motors, an Arizona-based company that has crowdsourced vehicle design since 2007, partnered with GE to debut a manufacturing process and increase by an order

of magnitude the number of products designed and market-tested in the appliances division.

GE has also partnered with potential competitors, including Intel for sensor technology, Cisco for network hardware, Accenture for service delivery, and Amazon Web Services for cloud delivery. As Ruh notes, "One big fear when partnering with companies like these is the competitive risks." Immelt says, "We partner with competitors. We know there's going to be tons of things we learn and share or give away. You can say on the outside, 'You are opening up Pandora's box. You're going to lose some of the control you have today.' I think that's part of the debate."

The tremendous opportunities created by GE's digital transformation don't come risk-free. As the company continues on this path, it will need to keep building soft-



GE'S INDUSTRIAL INTERNET

Drilling Equipment

BENEFITS

- Maximised production
- Predictable delivery
- Lower maintenance costs

What SmartWool Learned from Its Digital Customers

Ubiquitous connectivity can reshape marketing and product innovation. Digital networks, for example, can leverage user data and drive efficiency in advertising and lead generation. They can also connect manufacturers directly to communities of product users and “fans” – making it possible to crowdsource innovative ideas with ease.

When executives at SmartWool, a maker of high-performance athletic apparel, wanted to reach their core customers with a new ad campaign, they went to Victors & Spoils, an open digital advertising company. The V&S team quickly discovered that the last thing SmartWool’s loyal customers wanted was more traditional advertising; instead these outdoorsy types were eager to participate more meaningfully with the company.

In thinking about product design and marketing, SmartWool had always looked to world-class athletes for guidance – an old-school approach based on the view that expert knowledge was scarce. V&S flipped the paradigm and, through Facebook, recruited a community to test SmartWool’s products. Six months after the launch of the campaign, SmartWool had signed up 2,500 field testers – more than 10 per cent of its Facebook following. These enthusiastic fans bought the new products and put them to rigorous use right away. But the real bonanza for SmartWool was that the testers flooded the company with novel insights about the products’ performance, suggested improvements, and offered ideas for new products. For example, fans requested that SmartWool add thumbholes to its jacket sleeves so that they

could function as mittens. They also wanted lighter-weight running socks in a broader selection of colours. The company’s designers accommodated them.

The whole process culminated in an advertising campaign. V&S incorporated SmartWool’s new embrace of its crowd in ads featuring its field testers and their innovations. The campaign has performed well online and in print, improving both brand message retention and e-commerce conversion. Executives at V&S and SmartWool say they were surprised by the customers’ passion and acknowledgment that they could never have tapped into it without the digital connection. Now that SmartWool has opened the channel to fans, it’s finding new ways to bring them into every part of the product innovation and marketing development processes.

ware capabilities and defining software strategies that capture value without alienating participants in the ecosystem. The choices it makes about the openness of its platform will be crucial. Moreover, GE’s business model will be increasingly tied to those of its customers.

Beyond GE

GE is just one of many companies being completely reshaped by the new ubiquity of digital technology. Microsoft’s CEO, Satya Nadella, is trying to move his company past reliance on sales of its packaged software to remake it as a provider of cloud-enabled productivity services that operate on any platform or device. Microsoft’s transformation will recombine and restructure every one of its products and businesses. And as core applications such as Outlook and Office rapidly turn towards service-based business models (Outlook.com and Office 365), Nadella and his team are looking at new monetisation approaches. Revenue from packaged software is giving way to value capture based on customer usage.

Like GE, Ford is working in a variety of partnerships to create information-based offerings and is structuring new relationships with major Silicon Valley players. CEO Mark Fields is investing in the development of new business models: Ford and Zipcar have experimented with car-sharing on US college campuses, and Ford is piloting a

Zipcar-like programme in Germany. In cooperation with other start-ups, Ford is working on services such as enabling drivers to reserve parking spaces and enforcing residential parking rules. And it is looking to create on-demand ride-sharing. Meanwhile, Daimler has established a car-sharing service, car2go, that operates in 26 cities in Europe and North America, and it recently acquired RideScout, an Uber rival that operates in 69 cities in North America.

Bank of America is investing in its relationship with the investment platform Wealthfront, bringing analytics and automation to consumer portfolio investing. The bank is now using Wealthfront’s services to manage more than \$1 billion in investments, rather than relying on its traditional portfolio choice and optimisation processes. In the hedge fund arena, ValueAct is working with iMatchative to create integrated data platforms – from fund performance to novel investor and fund-manager psychometrics – and more-streamlined, digitised decision processes. The list goes on.

Approaching Digital Ubiquity

Over time, digital technology and the Internet of things will transform virtually every sector and every business. Here’s how you can embrace them, using lessons from the companies we studied:

Apply the digital lens to existing products and



services. We still live in an analog world. However, over the next five years many business components will be digitised to enable a new range of products, services, and business models. Consider how Uber has transformed transportation services by digitising all aspects of reservations, tracking, billing, customer service, driver performance, and ratings. What cumbersome processes in your business or industry are amenable to instrumentation and connectivity? Which ones are most challenging to you or your customers?

Connect your existing assets across companies. If you work in a traditional analog setting, examine your assets for new opportunities and look at other industries and the start-up world for new synergies. Your customer connections are especially valuable, as are your knowledge of customers' needs and the capabilities you built to meet them. Nest is connecting with public utilities to share data and optimise overall energy usage. If you work in a start-up, don't just focus on driving the obsolescence of established companies. Look at how you can connect with and enhance their value and extract some of it for yourself.

Examine new modes of value creation. What new data could you accumulate, and where could you derive value from new analytics? The industrial and consumer printing company 3D Systems is creating platform- and service-based business models that go beyond selling hardware and consumables. How would recombining the components of your business give rise to new opportunities? How could the data you generate enable old and new customers to add value?

Consider new value-capture modes. Chances are that digitisation will deflate some of your old models but will also create interesting new opportunities. SAP's cloud efforts allow it to charge customers for only the features they use, enhancing its ability to acquire new customers. Could you do a better job of tracking the actual value your business creates for others? Could you do a better job of monetising that value, through either value-based pricing or outcomes-based models?

Use software to extend the boundaries of what you do. Digital transformation does not mean that your company will only sell software, but it will shift the capability base so that expertise in software development becomes increasingly important. And it won't render all traditional skills obsolete. Your existing capabilities and customer relationships are the foundations for new opportunities. Invest in software-related skills that complement what you have, but make sure you retain those critical foundations. Don't jettison your mechanical engineering wizards – couple them with some bright software developers so that you can do a better job of creating and extracting value.

New Structure and New Risks

Outcomes-based business models create new dependencies and risks as well as revenue opportunities. You will depend on the ability of your customers to operate successfully, and you'll be sensitive to the same economic trends and potential shocks that affect them. GE is going to absorb a lot of business risk for its customers, but it has the financial understanding and capabilities to manage that risk. Smaller players will need to reach out to the financial sector for some carefully considered ways to cope with potential downsides.

The new ubiquity of digital technology and connectivity will have profound implications for the economy at large. The fortunes of Fairfield, Connecticut, where GE is based, will increasingly be tied to the weather at a wind farm in Germany, or to the operating efficiency of an airline headquartered in Abu Dhabi. Pressure on regulatory bodies will increase, and traditional institutions – from Fanny Mae to the US Food and Drug Administration – may be unable to keep up. Inadequate regulation and a lack of transparency in financial instruments and institutions drove the global economy off a cliff in 2007-2008. In a world in which complex relationships across companies and industry segments may not always be understood, let alone transparent, something similar could occur. Booms and busts may become sharper and more violent. Furthermore, risks will be increasingly difficult to identify and manage, making busts harder to predict.

But no opportunity comes without risks, which are best handled with awareness and transparency. Individual investors, companies, and institutions should work to understand new assets, new connections, and new dependencies. Institutions should ensure that connections are transparent and that the powerful are held accountable for the impact of their decisions. Our hope is that this wave of opportunity will couple enthusiasm with reason. If the potential downsides are managed well, the short- and long-term rewards will be dramatic. ♦

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GE'S INDUSTRIAL INTERNET

Locomotives

BENEFITS

- Lower maintenance costs
- Improved availability and utilisation
- Improved network velocity and capacity
- Improved customer service

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Change the Architecture

Organisations looking for sustained competitive advantage and high growth must evolve innovative business models

By
**S. RAMAKRISHNA
VELAMURI**



Since the dotcom boom of the late nineties that accelerated the growth of technology and technology-enabled companies, academics and practitioners alike have been fascinated by the role business models play in helping organisations achieve high growth and competitive advantage. Business models are the organisational architectures that serve to deliver the product or service offerings to customers. The same product or service could be delivered to customers with radically different models.

For example, a traditional food supermarket that sells vegetables, fruits and dairy products has a particular business model that is based on finding good retail locations with reasonable rents, staffing them with service-oriented employees and building a supply chain that makes fresh produce available to customers at competitive prices. The same products could be delivered to cus-

tomers through an online grocery, and while the customer is getting the products, the organisational architecture is significantly different from that of traditional retail. The customers' experience is also starkly different from the way the company communicates with them, to the way they place their orders, to the manner in which the products are delivered.

The implication of these differences is that the organisational competencies required for success in the two cases are also quite different. An organisation that is good at traditional retail will not typically be good at online retail. Some researchers go so far as to say that it is counterproductive for an organisation to even try to have two very different business models under the same roof: an oft-cited example is the difficulties faced by the mainstream airlines in developing good low-cost models to compete with Ryanair, Air

Asia and EasyJet.

A successful business model is one where the organisation adds value to all stakeholders, both external, such as the customer, the suppliers and the investors, as well as internal (the employees). It also enables the firm to capture value for itself. The internal and external linkages determine the architecture, whereas value creation and value capture determine the conditions for success.

An innovative business model typically changes the economics of the business in fundamental ways. For example, one researcher studied key indicators of online book retailer Amazon in 1998, about four years after it had been founded, and compared them to those of Barnes & Noble, and Borders, two traditional book retailers. He showed that Amazon carried 23 days' inventory versus approximately 150 days for the other two, and revenues per employee at

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Amazon were nearly three times those of the other two. Overheads were significantly lower at Amazon as it did not need to pay rent and personnel costs associated with hundreds of retail locations. Fulfillment costs, on the other hand, were higher at Amazon as it was delivering the books to customers' doorsteps.

The online book retail business model has been able to unlock such massive value through its much greater efficiency, and is gradually driving traditional book retailers out of business. For example, the Borders Group, which at one time had nearly 700 stores under the Borders and Walden-books brands and nearly 20,000 employees, went into liquidation in 2011. Traditional format bookstores are struggling in India also, as customers get more and more attracted to shopping for books online.

Over the years, I have been studying innovative private sector business models in the delivery of health-care services in India. There are a number of private sector organisations that have pioneered new business models based primarily on organisational innovations. If we look at eye care, where India has attained outcomes that are comparable to those of the developed world, we have a number of different models.

Aravind Eye Hospitals has large hospitals in



A successful business model is one where the organisation adds value to all stakeholders, both external such as the customer, the suppliers and the investors, as well as internal (the employees)

Madurai, Coimbatore, Pondicherry and Tirunelveli, and a few smaller ones across the smaller towns of Tamil Nadu. It drives patient flow to these hospitals through over 1,500 eye camps it conducts annually.

LV Prasad Eye Institute (LVPEI), on the other hand, has a pyramid model with a super-specialty centre in Hyderabad, three tertiary centres in Vijayawada, Visakhapatnam and Bhubaneswar, 18 secondary care centres (nine owned and nine partnered) and 82 primary care centres. The bulk of LVPEI's infrastructure is in Andhra

Pradesh and Telangana.

Vasan Eye Care has developed a highly scalable model that has allowed them to grow to over 170 eye care centres all over India. Vasan has received investments from Sequoia Capital and the Government of Singapore Investment Corporation.

Gurgaon-based Eye-Q has grown to 30 eye care hospitals in Tier-II and Tier-III towns mainly in northern India. In terms of their operations, these organisations are dramatically more efficient than their public sector counterparts, which allows them to achieve the objectives of affordability, access and quality.

Since business models are systems of activities encompassing both internal and external linkages, they are harder to innovate because every component of the system needs to be consistent with each other. At the same time, once an organisation has successfully innovated a business model, it is much harder for competitors to copy it.

CEOs have begun to realise that innovations that take place inside a research laboratory or in the product development group are but a small fraction of the innovations that their organisations need to focus on. Innovations need to be generated across the organisation. One key mechanism that can pave the way for high growth and sustained competitive advantage is business model innovation. ♦

BT EVENT HR Knowledge Forum



Seeking the right candidates: (From left) Shamni Pande of BT; Aditya Birla Group's H.R. Shashikant; Prabir Jha of RIL; Accord India's Sonal Agrawal; Essar Group's Adil Malia; and Debi Prasad Das of CEAT Tyres

PHOTOGRAPHS BY RACHIT GOSWAMI

THE HUNT FOR TALENT

Top HR executives in Mumbai delve deep into issues related to attracting and retaining talent in manufacturing. By ARPITA MUKHERJEE



Stemming from the government's 'Make in India' initiative, there has been a lot of discussion recently on the need to provide a push to manufacturing across sectors such as auto components, construction, chemicals, among others. The corporate community is, undoubtedly, gung-ho about the programme. However, it also has to make sure that manufacturing remains an attractive career option for today's employable youth.

This was one of the two topics of discussion at the *Business Today* Knowledge Forum on Human Resources (HR) held at the Palladium Hotel in Mumbai on March 11 and moderated by Shamni Pande, Senior Editor at BT. The first set of panellists, comprising Adil Malia, Group President – HR, Essar Group; Debi Prasad Das, Senior Vice President – HR, CEAT Tyres; H.R. Shashikant, Group Executive President – GHR, Aditya Birla Group; Prabir Jha, President and Group CHRO, Reliance Industries; and Sonal Agrawal, Managing Partner at talent search firm Accord, discussed the burning issue of *How manufacturing can again attract the best talent*.



For videos of the discussions, log on to businesstoday.in/hrforum-mumbai2015

Opening the discussion, Aditya Birla Group's Shashikant noted that the issue is not about getting the 'best talent', but the 'right talent'. "There will be newer businesses and companies coming in, and talent will always fly. What is important is the ability and capability the company has to develop them internally." Das of CEAT Tyres agreed, saying that the companies can make their choices at the policy level itself. "Take a policy level (or an) organisational level goal that only 20 per cent of your hires for all key positions will be from [the] external world and the rest will be grown within."

For Jha of RIL, the bigger issue is the need for manufacturing companies to realise the gravity of the problem. Not only are they struggling and competing with other industries for the right talent, they also have to promote manufacturing as an attractive career prospect for the youth. "The challenge is to make sure that manufacturing is not going to live in its own cocoon and blame the new world. That is not going to help its cause. Manufacturing as an agenda, as an area of work is suffering from a huge crisis of credibility." Concerns about the sector's (geriatric) leadership also keeps the youth away, added Jha.

Essar Group's Malia said several perceptions made a career in manufacturing unattractive in the eyes of prospective talent. "The perception is that if you get into



Prabir Jha, RIL

"The challenge is to make sure that manufacturing is not going to live in its own cocoon and blame the new world. That is not going to help its cause"

H.R. Shashikant, AB Group

"There will be newer businesses, companies coming in, and talent will always fly. What is important is the company's ability and capability to develop them internally"



Adil Malia, Essar Group

"A company has to have a plan in place for proper integration... There should be a structured change acceleration and migration programme in place"

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The need to retain talent: (From left) Grant Thornton's Raja Lahiri; Abbott India's Ajay Bhatt; BT's Shamni Pande; Rajeshwar Tripathi of M&M; Vineet Kaul of Hindalco; and Adil Malia of Essar Group

Vineet Kaul,
Hindalco Industries

"How quickly we can try to have a good retention plan or bring about some confidence among the key talent is very important"



Rajeshwar Tripathi,
Mahindra & Mahindra
"Effective governance is the key to managing the fear and anxiety of the employees"

manufacturing, you mix around with only shop floor workers and engineers." Accord India's Agrawal said that even in manufacturing companies, sales, marketing and finance jobs are more in demand. "Manufacturing hasn't kept pace with the DNA changes around its own industry."

The second panel brainstormed *How HR can help integrate employees in an M&A*. The panellists included Ajay Bhatt, Regional HR Director, Abbott India; Rajeshwar Tripathi, Chief People Officer (Automotive and Farm Equipment Sectors), M&M; Vineet Kaul, CHRO, Hindalco; Raja Lahiri, Partner, Grant Thornton India; and Adil Malia of Essar. This panel concurred that the strategy for integration would depend on the reasons behind the acquisition.

Bhatt of Abbott said it is important to know the strategic

reason for an acquisition. "As an HR professional, it is very important for us to recognise that creating and sustaining value for an organisation is one of the most important reasons for the merger to succeed. Grant Thornton's Lahiri agreed: "If we are clear about why we are buying, the next steps, whether it is due diligence or integration, will follow."

Hindalco's Kaul said that while there is no standard rulebook that applies to a company during an M&A, attention should be paid to the seamless integration of cultures, along with putting effective policies in place to retain talent.

The rest of the panel concurred, but also pointed to an important aspect that had to be dealt with effectively in order to retain and integrate employees – anxiety.

According to Tripathi of M&M, effective governance is the key to managing fear and anxiety of the employees. Kaul agreed, saying that how management starts communicating its basic core values and philosophy is extremely important and helps to retain the best talent. "If the key talent moves away because of uncertainty or doubt, you've had it. Most of the asset valuation that you're banked on would depend on key talent. How quickly we can try to have a good retention plan or bring about some confidence among the key talent is very important."

For Malia, a company has to have a plan in place for proper integration between companies. There should be a very structured change acceleration and migration programme in place, which identify how you are going to integrate and get the value that you want from M&As.

SRM University was the event's presenting sponsor. ♦

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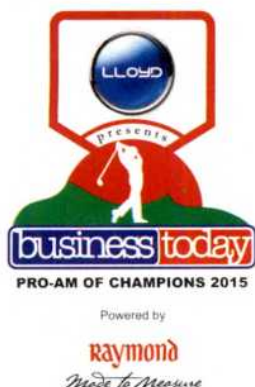


Winners circle: Top female professional golfers from India and abroad along with B.R. Punj (12th from left), CMD, Lloyd Electric & Engineering, and Ashish Bagga (ninth from right), Group CEO, India Today Group

ENDING WITH A BANG

Over 150 executives and 20 professionals gave it their all at the grand finale of the 19th edition of the *BT Lloyd Pro-Am of Champions* in Gurgaon recently.

By SHAGHIL BILALI



The two-day grand finale of the 19th edition of the *Business Today-Lloyd Pro-Am of Champions* teed off in style at the Classic Golf Resort in Gurgaon in early March. India's only Pro-Am, where top business leaders and women professionals play together, saw over 150 executives and 20 pros (10 Indian and 10 international) take to the course.

"It was good to play today [day

one]. The tournament provides the participants with an opportunity to do networking and find like-minded corporate decision-makers who can help in their business," said B.R. Punj, Chairman and Managing Director, Lloyd Electric & Engineering, and a participant.

Participating in the event for the fourth time, Deepak Ansal, CMD, Ansal Housing, who played in Punj's group, was all praise for the pictur-



esque golf course. "I like the course very much. It has a good layout. Though the greens were a bit tricky today, overall it played good."

Agreed Rohit Jhavar of Usha Fabcast: "I have been playing in this event for the last four to five years and the venue couldn't have been better. We play with the pros and learn from them about golf discipline and on-course conduct."

Sunil Wadhwa, CEO, Groupe SEB India, has been an integral part of the event. In fact, he hasn't missed a single edition since its inception in 1995. "I have sweet memories of this tournament as in 1997, I won a ticket to Scotland by winning [in a category]. One thing I find unique about this event is that we [get to] play with the pros. When you watch them play, you can pick up one or two shots which helps you game-wise also."



And the winner is: Thai pro Pennapa Pulsawath (centre) flanked by B.R. Punj (left) & Ashish Bagga

"It's a two-day event and you never know who can come from behind and win. So, the excitement of winning is there till the last card on the second day is submitted," said Kavi Arora, MD and CEO,

Religare Finvest.

For Vani Kapoor, India's No.1 female golfer, the event was an opportunity to get in touch with corporates. "At times, it works in our favour as they end up sponsoring us."



1. Dhruv Shringi, Co-founder & CEO, Yatra.com

2. Arvind Saxena, President & MD, General Motors

3. Kavi Arora, MD & CEO, Religare Finvest, & individual winner in the 11 to 18 Handicap category

4. Neha Tripathi, professional golfer (India)

5. Nigel Harris, President & MD, Ford Automobiles

6. Vani Kapoor, India's No.1 female professional golfer



Back to the game, Thailand's Wichanee Meechai shot a round of three-under 69 to take the sole lead among the pros at the end of day one. She was a stroke ahead of the Indian duo of Saaniya Sharma and Smriti Mehra. Meechai's compatriot Pennapa Pulsawath was fourth at one-under 71. India's Gursimar Badwal and Thailand's Saraporn Chamchoi sharing the fifth spot with an even-par 72 each.

On the final day, the Thai duo of Pulsawath and Meechai shot a 69 and 71, respectively, for a two-day aggregate score of four-under 140

each before fighting it out in a play-off. After setting up birdies on the first play-off hole, Pulsawath fired a birdie on the second one to clinch the title. Among the Indians, Mehra (73) and Badwal (71) were tied for third at one-under 143 each.

"Last year, I lost in the play-off, so I am extremely happy to clinch the title this year. It was a tense play-off since we were squared on the first play-off hole, but Wichanee spoilt her tee shot on the second hole and I got it right to find a birdie and won the title," said Pulsawath.

While Pulsawath walked away

with the winner's cheque of ₹1,08,000, runner-up Meechai got richer by ₹76,800. Mehra and Badwal won ₹57,000 each.

Meanwhile, in the team event, Sanjeev Kumar, Sandeep Kumar, A. Keshavamurthy and pro Neha Tripathi emerged victorious with 111 points. Bhupender Berry, Ravi Khanna, Vivek Talwar and Thai pro Panuma Vitayakonkomol claimed the runners-up trophy with 109 points. Sanjeev Kumar (40 points) won the 19 to 24 Handicap category, Religare Finvest's Arora (42 points) emerged triumphant in the



7. B.R. Punj, of Lloyd Electric & Engineering

8. The winning team: (From left) Ashish Bagga; pro Neha Tripathi; B.R. Punj; Sanjeev Kumar, VP Finance, Coca-Cola, and individual winner in the 19 to 24 Handicap group; A. Keshavamurthy, Sumukha Enterprises; and Sandeep Kumar, CEO, Global Interactive Malls

9. Mayank Arora (centre), Country Head, Lakeland Gloves & Safety Apparel, and individual winner in the 0 to 10 Handicap group, flanked by B.R. Punj (left) and Ashish Bagga

11 to 18 group, while Mayank Arora (39 points) bagged the top prize in 0 to 10 category. Rohit Nath (340 yards) won the title for longest drive on day one, while Siddharth Sangwan (310 yards) came out on top on day two.

For Sandeep Menon, Country Marketing Director, Google, who had played here earlier, it was good to be back again. "I got to meet a lot of people, and playing with pros was a different experience altogether."

Kaushik Dutta, Founding Director, Thought Arbitrage Research Institute, also found the

event different since it gives the corporate czars an opportunity to rub shoulders with the pros. "They [the pros] have a different approach towards the game and amateurs like us learn a lot from their game."

This was also the fourth year at the event for Shubhodip Pal, Marketing Head, Yureka Mobile (Micromax). He said: "The female pros have the softest touch when it comes to playing shots, a good technique for the amateurs to follow."

Didar Singh, Secretary General, FICCI, was also full of praise for the event and the golf course. "I played

here for the second time. This is also one of the best golf courses in India. Playing with women pros teaches us that for golf, you don't need a big and sturdy physique. All you need is a good game to perform."

Lloyd Electric & Engineering, India's eminent consumer durables company, was the principal sponsor of the event, which was powered by Raymond. Ballantine's was the beverage partner, 4moles.com the digital partner, NEO Sports the TV partner, Creatigies took care of marketing, and the media partners included *Golf Digest* and *Mail Today*. ♦

How to do Better with Less

An inspiring book grounded in reality with case studies of companies that have been successful in building a frugal innovation engine. By SRINIVAS PRASAD



Frugal Innovation
By Navi Radjou and
Jaideep Prabhu

PAGES: 280

PRICE: ₹599

Hachette India

The best practices are drawn from studies of early adaptors of frugal innovation in the US, Europe and Japan

Consumers in developing economies have always wanted “more and better for less”, and this demand is only increasing. Several economic changes have made frugal living and consumption a new way of life for people. Authors Navi Radjou and Jaideep Prabhu identify these high-impact macro changes and how they are forcing companies globally to change so that they can deliver the best-in-class, affordable, sustainable, and high-quality products and services with the use of minimal resources and in less time.

Featuring over 50 compelling case studies, *Frugal Innovation: How to do Better with Less* identifies the philosophy, principles and techniques behind frugal innovation, which, if adapted in the right way, can help companies become global leaders. The best practices are drawn from studies of early adaptors of frugal innovation in the US, Europe and Japan across sectors, including healthcare, financial, retail, manufacturing and education. Starting with how socioeconomic factors in the developed world have given rise to western consumers to embrace frugal thinking, the authors explain how companies have adopted six principles – engage and iterate, flex your assets, create sustainable solutions, shape customer behaviour, co-create value with prosumers, and making innovative friends – to achieve significant gains in cost-efficiency, speed and agility and to rebuild their innovation engine. The importance of fostering a frugal innovation culture, and how companies are laying the foundation for this and rewriting the game has also been very well elicited.

The first principle of ‘engage and iterate’ explains how innovation requires R&D to move away from an insular way of working to an approach which involves intense customer interaction – observing customer behaviour in their natural environment and then going back and forth between the drawing board and the customer to refine the design. The second principle of ‘flex your assets’ describes the trend towards mass customisation and how through new tools and approaches such as social manufacturing and continuous production, the operations managers can extract more from production, logistics and services, and the whole value chain supporting it. The third principle of ‘creating sustainable solutions’ brings out the way customers are making their choices to buy a new product or service, and how companies are implementing practices like ‘cradle-to-cradle’.

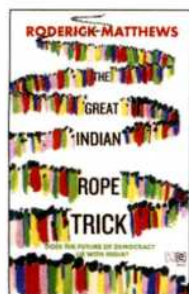
The fourth principle of ‘shaping customer behaviour’ gives the marketing manager new insights on how to tailor and position frugal products and services to improve brand loyalty, improve market share and make consumers feel really good when consuming less. ‘Co-create with prosumers’, the fifth principle, describes how co-creation and crowdsourcing can help harness the collective wisdom and skills of consumer communities, and the mindset shift required from R&D and marketing managers to be on top of this. The sixth principle, ‘making innovative friends’ brings out the strong need in the new flat world, for R&D to be highly networked, lean and flexible, and how companies can leverage the ecosystem to make this happen.

This is an inspiring book which is grounded in reality, and a must read for all. The case studies from a diverse set of companies which have been successful in doing ‘better with less’ can trigger new thoughts and ideas to build a frugal innovation engine, which can help companies in India to become global leaders of products and services. ♦

The reviewer is CEO, Philips Innovation Campus, Bangalore

Chronicles of a Democracy

A book that captures the sheer complexity that India offers as a democracy. By SANDIP GHOSE



The Great Indian Rope Trick
By Roderick Matthews

PAGES: 378

PRICE: ₹599

Hachette India

At the start, one should make a disclosure. Roderick Matthews' great-grandfather was the private tutor of Jawaharlal Nehru and his wife was the governess of Nehru's sisters. But, this is not to mean that Matthews' views are coloured by his connections with the Nehru family. He is essentially a student of modern history specialising on India and, if one may still use the old term, 'subcontinent'.

It was important to set that background to give an idea of the author's approach to the book. This is not yet another glib commentary on India's post-independence history leading up to the 2014 elections. He takes a much longer view and starts not just with the 'colonial beginnings' of the Indian democracy, but even its philosophical roots in 'dharma, injustice and pragmatism'. He takes a sweep at the evolution of democracy in entire South Asia, including Pakistan, Nepal, Sri Lanka, Bangla-

des and Myanmar.

The essential thesis of Matthews' work is: democracy in India has survived 67 years but is not a 'done deal'. During this time, it has witnessed a series of extraordinary events that have 'conferred a certain wisdom'. But could enfeeblement, retirement or senility be on the horizon, he asks. He has tried to examine the various threats to Indian democracy: social (sexual violence, *khaps* and the inevitable caste and religion), political (Maoist, separatist and secessionist movements) and security (terrorism), economic disparities and corruption, and even judiciary (backlog of cases and compromise by higher judiciary). But in doing so, he gets mired in the sheer complexity that is India.

In the ultimate analysis Matthews feels – like most do – that the Indian democracy, for all its shortcomings, is a success, discounting any concerns about creeping dictatorship. India has lived (and experimented) with democracy while retaining a great many of its traditional social features. The deficiencies, if any, are more of 'practice' (in certain specific areas, touched upon before) but not of 'principle'. He concludes that democracy contains (and even relies on) a large element of positive illusion, which he compares with *The Great Indian Rope Trick*.

Matthews is no Simone Denyer or Edward Luce. This is a work not of a political journalist but a scholar. Therefore, the book might be a bit out of reach for a lay reader but, perhaps, a little short of depth for a seasoned political scientist. ♦

The reviewer has worked in the media industry and has keen interest in politics and current affairs.

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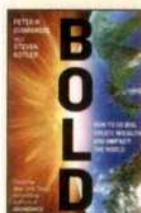


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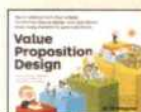


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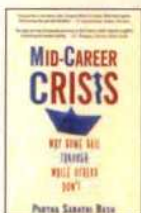


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By Partha Basu

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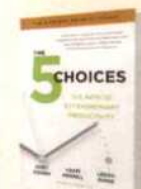


Frugal Innovation

By Navi Radjou

Hachette India

Price: ₹599



The 5 Choices

By Adam Merrill

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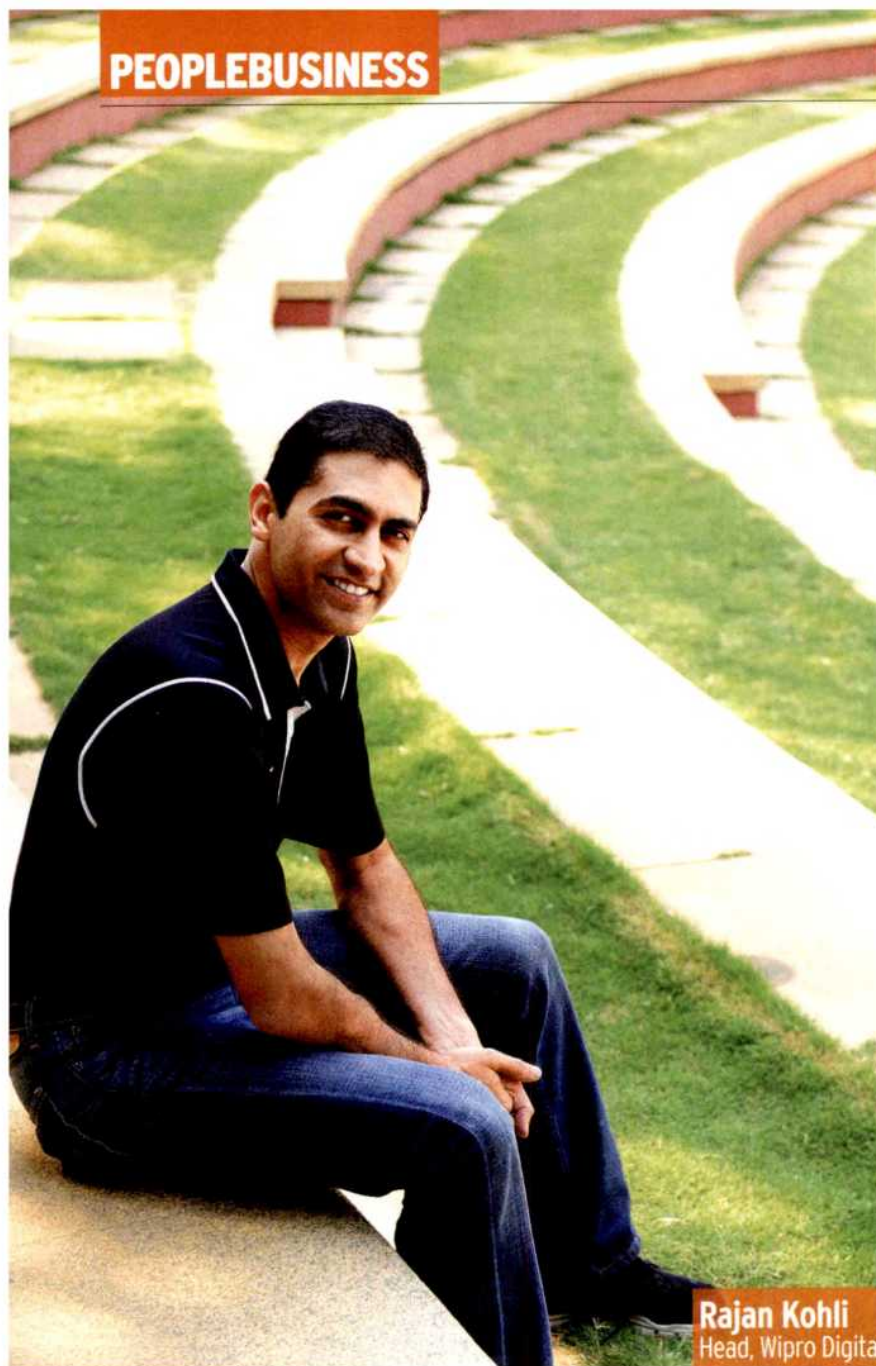
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Rajan Kohli
Head, Wipro Digital

NILOTPAL BARUAH

A Digital Mindset

Wipro Technologies has been working on digital services projects for many months now. But recently, it decided to carve out a separate unit to be headed by **RAJAN KOHLI**, who earlier led the company's banking and financial services vertical. A separate digital unit was required for two reasons. "Digital transformation of the enterprise is now either a number one or number two priority for our clients," says Kohli. Two, this type of work requires a different mindset where there is a more urgent need to deliver projects quickly. Kohli has, therefore, started hiring from start-ups, which are far more used to an agile environment compared to traditional IT services companies. The digital unit plans to recruit 300 employees in six months.

GOUTAM DAS

The New GST Man

Kerala Finance Minister **K.M. MANI** now has the daunting task to get the states on board for India's biggest indirect tax reform to date – the implementation of Goods and Services Tax. GST is expected to build a transparent tax administration – where tax will be levied only at the destination point and not at multiple points, as is the case today. With the Modi-led government consistently reiterating the April 1, 2016 deadline, Mani will have to deploy his political deftness and negotiation skills to thrash out prickly issues with states. More than anything, Mani has the onerous task of bridging the trust deficit and to keep the essence of the bill intact.

SHWETA PUNJ

K.M. Mani
Chairman, Empowered Committee
of State FMs on GST



Twitter's Innovative Ways

Twitter CEO **DICK COSTOLO** was in India recently. He met Prime Minister Narendra Modi, launched *Twitter Samvad*, a service that would help the government and government bodies communicate with people via tweets through the SMS medium, and spoke with the media about his company's growing business in the country. "Our business has started to grow here [in India] in the last couple of quarters," said Costolo, while hinting that Twitter is benefiting from Indian innovation. The *Samvad* service is based on ZipDial's platform. Twitter, in fact, acquired ZipDial recently.

GOUTAM DAS



VIVAN MEHRA

Dick Costolo
CEO, Twitter

Riding High

When Motorola Mobility decided to stop selling its handsets in India in November 2012, **AMIT BONI** decided not to part ways with the company despite having many lucrative job offers. His decision seems to have paid off in February 2014, with Motorola making its way back into the handset business in India with an exclusive online tie-up with Flipkart. The company had just five handsets in its kitty and no offline presence, but it... still managed to sell over three million mobiles in less than a year. "We focused on the right areas by having over 130 service centres in place... Our decision to sell smartphones through e-commerce proved [to the] cost, which we eliminated." also helped in having traditional retail ad

NIDHI SINGAL

Amit Boni
GM, Motorola Mobility, India



Vikas Swarup
Spokesperson-designate, MEA

Rapid-fire Round

He has made his mark as a writer. Now comes the test as a spokesperson. **VIKAS SWARUP**, author of *Q&A*, which was adapted into the Oscar-winning hit *Slumdog Millionaire*, will take charge as the new spokesperson of the Ministry of External Affairs on April 18. He will have to fill the exacting shoes and match the scorching pace of Syed Akbaruddin, who occupied the hot seat for three-and-a-half years. But then, the Allahabad-born Swarup, 52, who is currently Joint Secretary (United Nations – Political), is no stranger to hot seats or rapid-fire questioning – it features so prominently in his novel after all!

CHITRA NARAYANAN



VIVAN MEHRA



VIVAN MEHRA

"Discover your best partner, not hot money"

Mobile payments and m-commerce company Paytm crossed a billion dollars in revenue run rate in February. Its Chairman and MD Vijay Shekhar Sharma talks with Goutam Das about Paytm's rapid growth since it was set up and Chinese giant Alibaba's investment into the company. Excerpts:

What does Alibaba's ownership (25 per cent stake) mean for your company?

Since Alibaba's investment, we have more money, more learning of scale. In Indian e-commerce, nobody is a marketplace apart from eBay. Everybody owns inventory. We are a 100 per cent marketplace model. We learnt that, to build scale, you have to partner with merchants. Paytm's business model is acquiring customers for wallet and creating use cases. Some of the use cases are top-up, utility payments, tickets, deals, shopping, fashion, etc. That's why we call ourselves a commerce platform, not just a payments platform. We started getting into m-commerce in April last year [2014]. Good companies grow their business model to the next level. We grew from top-ups to payments to the marketplace. Our success was that we created more use cases for customers than anybody else could. Everybody else was waiting for merchants to create use cases. Why will you open a mobile wallet if there is no need for it? I tell you that the recharge will be easy, the DTH [direct-to-home] top-up will be easy, the Uber payment will be easy. When we were around Diwali, around October 2014, we were running on half-a-billion dollars of run rate. We have now crossed a billion dollars. We have achieved this growth in less than a year's time.

What has been your biggest learning in the past three years?

If your customers love your product, you don't need the marketing dollars, discounting. It is a clichéd statement, but if companies start to get into the curve where your customers are your ambassadors, it is an incredible state to reach. You should only aspire for that.

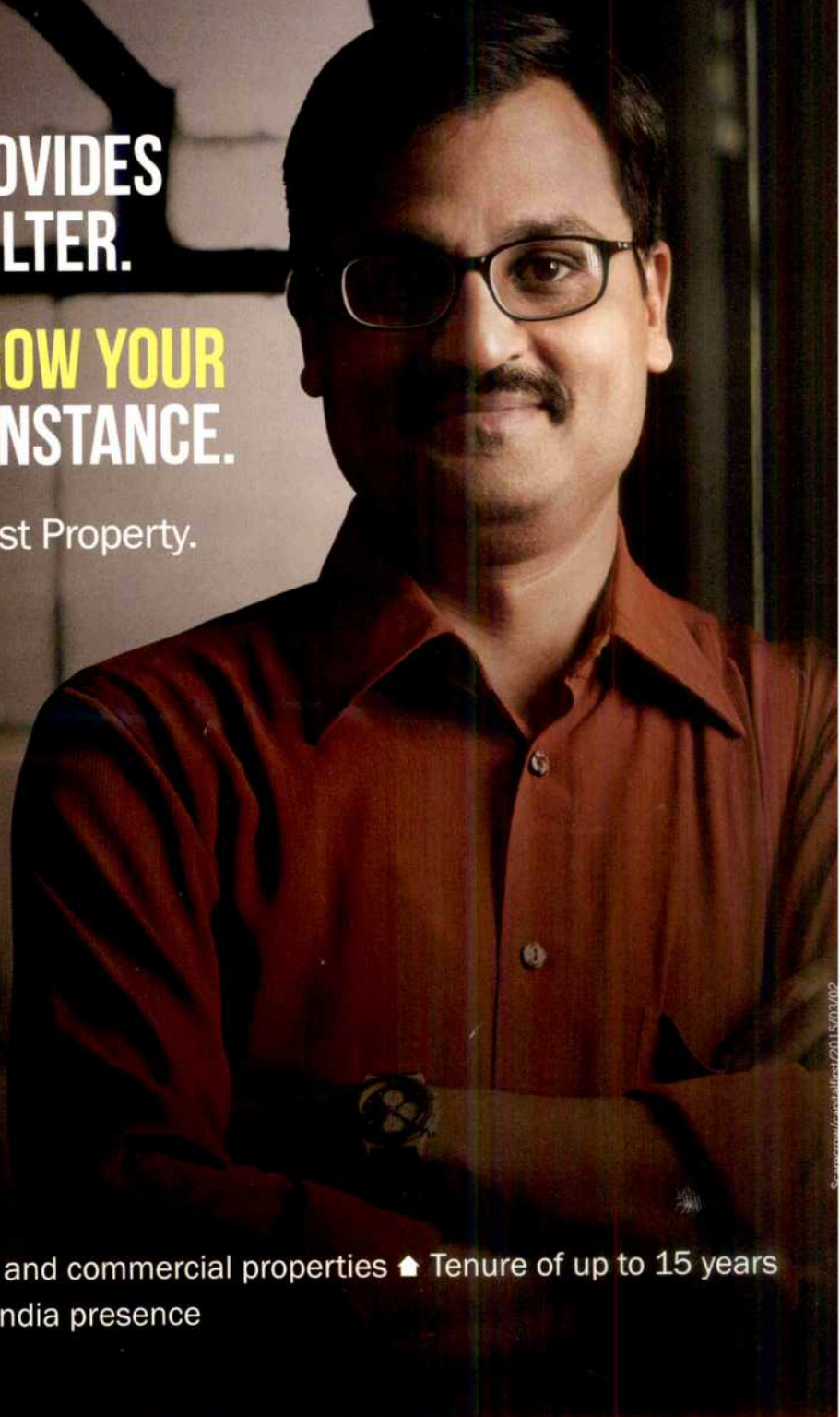
How has been your experience in fundraising?

Fundraising might be tough, it might take more time. But you should not take money from an investor till the time you have an incredible chemistry is right, the pursuit of chemistry with him. If the chemistry is right, the pursuit of the objective is many-fold better. You have to discover your best partner, not hot money.

What does Jack Ma (Alibaba Executive Chairman) expect?

Paytm's Founder and

There is no better thing than having Jack Ma as a mentor. He spent time with our team, he tells us how we have to build Jack Ma as a mentor for our next generations and not on a single opportunity. He listens to our story and tells us how we have to build a company for the cause here. ♦



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